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BACKGROUND REPORTS

THERE'S NO TURNING BACK: A PROPOSAL FOR CHANGE

Submission to the Greater Toronto Area Task Force

by Metropolitan Toronto Council

August 16, 1995

METRO
CHIEF ADMINISTRATOR'S OFFICE
Corporate Planning Division

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INTRODUCTION

This report is one of a set of background documents prepared to assist councillors develop a framework for Metro's submission to the GTA Task Force. The report is intended to serve as a source of reference to key events in the history of the Metropolitan Toronto government in the Toronto urban region. It has been compiled on the assumption that the current debate about the need for GTA government reform will benefit if understood as part of a continuum of history.

The report:

- reviews the rationale for the creation of Metropolitan Toronto in 1953; and
- provides a chronological summary of the evolution of the Metro Government's functions and responsibilities.

RATIONALE FOR THE CREATION OF METROPOLITAN TORONTO

Many people know Metropolitan Toronto only as a mature, developed metropolis with a comprehensive infrastructure and well regarded urban services available to 2.3 million inhabitants and many others who live outside Metro's boundaries. To fully appreciate the rationale underlying the two tier structure of municipal governments that share responsibility for servicing Metro, it is important to know something of the conditions in this region in the period leading up to the creation of the Metropolitan Council.

Municipal Government Prior to Metropolitan Toronto

Toronto was incorporated as a city in 1834 with a population of just over 9,000. Subsequently, the city annexed surrounding areas as they became urbanized. However, from 1912 onwards the city pursued a policy of no annexations to avoid the cost of servicing the newly urbanizing communities. After 1912, twelve suburbs emerged in the area around

Toronto.¹ Each grew completely independently of the others, some attracting mainly industrial development, some becoming primarily residential. No overall plan existed to guide this development.

Immediately following the Second World War a rapid increase in the birthrate, major growth in migration from rural to urban areas and massive immigration from the war ravaged countries of Europe combined to create the beginning of a period of unprecedented population growth in the Toronto area.

All of the growth occurred in the 12 suburban municipalities immediately surrounding the City of Toronto, and particularly in the three large "outer ring" communities of Etobicoke, North York and Scarborough. In the period 1945 to 1953, the populations of North York, Etobicoke and Scarborough increased by 339 per cent, 230 per cent and 226 per cent respectively. The population of the City of Toronto declined slightly during the same period.

The rapidly growing population demanded a wide range of public services that the suburban municipalities were expected to provide. However, being predominantly rural and residential, several of these municipalities lacked the necessary revenue base to finance the provision of essential services. Communities competed with each other to attract industry in order to improve their financial situation.

The financial difficulties and jurisdictional fragmentation were exacerbated by the geographical division of the suburban area into 12 municipalities of greatly varying sizes. Six of the municipalities lacked direct physical access to Lake Ontario, the logical source of water supply and the ultimate outlet for storm and sanitary sewage. Rapidly growing North York relied on wells and septic tanks but these systems were unable to cope with the demand so water shortages followed. The City of Toronto, with its relatively stable financial base, had little room for housing while, in the suburbs, badly needed housing construction

¹ Town of Leaside, Town of Mimico, Town of Weston, Village of Forest Hill, Village of Long Branch, Village of Swansea, Township of East York, Township of Etobicoke, Township of North York, Township of Scarborough, Township of York, Town of New Toronto.

was held up by a lack of sewage treatment capacity.

By the beginning of the 1950s, some municipalities were having difficulty selling their bonds; the situation was approaching crisis proportions.

As the Metropolitan area continued to grow, the interdependence of communities became clearer as did the need for satisfactory intermunicipal arrangements for the provision of services.

Several different solutions were suggested but none was acceptable to all 13 municipalities. The City of Toronto proposed the amalgamation of the whole area into one municipality. Other municipalities preferred the continuation of numerous single tier governments at the local level, possibly coordinated through cooperative arrangements involving special purpose bodies, but without a regional level of government. The Town of Mimico recommended a version of two tier government via the establishment of an area for the joint administration of certain services.

The Formation of Metropolitan Toronto, 1953

Beginning in 1950, the Ontario Municipal Board (OMB), under the Chairmanship of Lorne Cumming, conducted an inquiry into the various proposals for dealing with the problems of the Toronto area. On January 20, 1953 the OMB handed down a decision (sometimes referred to as the Cumming Report) recommending the creation of a two tier municipal federation with responsibilities divided between an upper tier Metropolitan government covering the entire region and the 13 existing local governments.²

The provincial government responded quickly and, on April 2, 1953, the legislature passed Bill 80, "to provide for the Federation of the Municipalities in the Toronto Metropolitan Area for Certain Financial and Other Purposes" ("The Municipality of Metropolitan Toronto Act"). The Metropolitan system of government came into being on January 1, 1954.

2 Cumming, Lorne (1953): "Decisions and Recommendations of the Board, January 20, 1953". Ontario Municipal Board.

Characteristics of the Metropolitan Federation

"The Municipality of Metropolitan Toronto Act" created the Metropolitan Council whose area of jurisdiction encompassed the combined territory of all 13 area municipalities. The Act gave the Metropolitan Council the capacity to plan, finance, build and maintain the infrastructure required for urban growth in the region. The 13 constituent area municipalities retained responsibility for delivery of services to their local populations where regional coordination or financing were considered unnecessary or, if desirable, were not urgently required and could wait until people had grown used to the new Metropolitan government.

A key component of the new two tier arrangement was the Metropolitan Council's ability to levy the area municipalities for revenue to carry out regional functions. In addition the Metropolitan level was given exclusive responsibility for:

- the administration of justice;
- borrowing and issuing debentures;
- property assessment;
- public transportation, except steam railways and taxis;
- specific social services: provision of homes for the aged, hospitalization and burial of indigents, and maintenance of neglected children; and
- regional planning through the establishment of the Metropolitan Toronto Planning Board which had jurisdiction over an area of about 720 square miles, two thirds of which were outside Metro's boundaries. Twenty-six municipalities were included in this Metropolitan Toronto Planning Area.

The constituent area municipalities were given exclusive responsibility for:

- fire protection;
- garbage collection and disposal;
- licensing and inspection;
- local distribution of hydro electric power;
- policing;
- public health;

- general welfare assistance;
- recreation and community services; and
- collection of taxes.

The two tiers shared responsibility for the following areas although their respective functions were clearly distinguished:

- parks (Metro responsibility for creation of regional parks system, and area municipal responsibility for local parks and recreation facilities);
- planning (Metro responsibility for planning for the overall structural elements of the metropolis and the broad distribution of population and employment, and area municipal responsibility for local planning including zoning and detailed development control);
- roads and traffic control (Metro responsibility for Metropolitan arterial roads system, and area municipal responsibility for local roads);
- sewage disposal (Metro responsibility for sewer mains and the treatment and discharge of sewage, and area municipal responsibility for sewage collection and routing to Metro system); and
- water supply (Metro responsibility for water purification and wholesale supply via trunk mains to area municipalities, and area municipal responsibility for retail distribution to local properties).

In a limited number of other service areas, such as housing and financial aid to hospitals the upper and lower tiers shared similar powers.

"The Municipality of Metropolitan Toronto Act" also established the parallel two tiered system of Metropolitan and area school boards.

THE EVOLUTION OF METRO'S FUNCTIONS AND RESPONSIBILITIES

The creators of the Metropolitan Toronto model intended the responsibilities of the Metropolitan Council to evolve over time in response to changing circumstances and as the

general concept of Metropolitan government took hold in the Toronto area. Accordingly, the provincial government legislated a series of changes to Metro's mandate between 1953 and 1974.

1954:

- Responsibility for traffic control systems and operations was given to Metro.

1955:

- Metro assumed responsibility for civil defence and the development of an organization to deal with military and civil disasters.
- Metro assumed responsibility for the development of a system of Metro parks, particularly in the Don and Humber Valleys.

1956:

- Metro took over the regulation, control, and reduction of air pollution (a function that went to the provincial government in the 1960s).
- Metro also accepted responsibility for the Toronto Islands.

1957:

- The 13 area municipal police departments were amalgamated and responsibility for policing was transferred to Metro (specifically to a police commission with Metro-wide responsibilities, funded by Metro but controlled by the provincial government).
- Metro was given responsibility for development and management of a uniform system of licensing for taxis, tradespeople, restaurants, cartage trucks, and other businesses.
- As a result of the extensive flood damage caused by Hurricane Hazel in 1954, the Metropolitan Toronto and Region Conservation Authority (MTRCA) was established with major participation in and funding by Metro. The MTRCA was responsible for conservation of the Metro watershed, floodplain protection, and development of the recreational potential of valley lands.
- Metro took over responsibility for the Riverdale Zoo which was recognized as a regional amenity.

1967:

- Following provincial consideration of the recommendations of Carl Goldenberg's Royal Commission Final Report in 1965,³ the following responsibilities were transferred to Metro:
 - waste disposal, including the ability to establish waste disposal facilities outside of Metro;
 - social assistance, full responsibility for local social services was shifted to Metropolitan Toronto including both mandatory and discretionary services and administration under the Public Welfare Act;
 - provision of a public, Metropolitan-wide ambulance service; and
 - development of regional reference facilities and coordination of the activities of local libraries, through the newly established Metropolitan Toronto Library Board.
- An important parallel change in 1967 was the granting to the Metropolitan School Board of authority to share resources among the local boards of education.

1968:

- Metro assumed ownership of the O'Keefe Centre in 1968.

1970 - 1974:

- Responsibility for the assessment of buildings for property taxes was transferred from Metropolitan Toronto to the provincial government as part of a move to provide more uniform administration of the function in preparation for market-value assessments - and before devolution of more authority for assessment to local government.
- Certain responsibilities respecting the administration of justice were also removed from Metropolitan Toronto, including the administration of magistrate's courts and of juvenile and family courts.

- Responsibility for land-use planning in the area around Metropolitan Toronto was withdrawn from the Metropolitan Planning Board as the neighbouring regional governments of York (1970) and Durham and Peel (1974) were established. The Board was abolished in 1975 and responsibility for planning within Metropolitan Toronto was given directly to the Metropolitan Toronto Council.

There have been no significant changes in the formal, legislated authority and responsibilities of Metropolitan Toronto since 1974. However, Metro's activities have undergone considerable changes in emphasis and direction as the metropolis has matured and new issues have become more prominent.

1974:

- An enhanced role for Metro in the provision of cultural services followed Council adoption of the Silcox Report.⁴

1977:

- The Robarts Report in 1977 recommended that Metro develop overall human services strategies and encourage coordination and rationalization among the various social service programs and providers - often non-governmental agencies.

1980's:

- In the late 1980s Metro's focus on the environment shifted from the avoidance of waste for disposal, and was broadened to embrace the need for transformation to a conserver society.

1988:

- The provincial government approved direct election for Metropolitan Toronto as recommended by the Robarts Report which stressed the need for clear lines of accountability.

4

Silcox, David (1974): "Metropolitan Toronto's Support for the Arts".

1989:

- Metro Council adopted an Economic Development Strategy. This coincided with a move to more direct intervention in attracting and retaining employment, increasing exports, increasing international awareness of Metropolitan Toronto, and increasing the investment in local research and development.

1990's:

- Direct election enabled Metro Council to review and consolidate its mission and goals:

1991:

- The Metropolitan Toronto Government Strategic Plan offered a vision of the Metro government and outlined the qualities it must strive for and sustain to ensure a healthy, vital community.

1992:

- The Social Development Strategy, entitled "New Realities, New Directions", recognized a pivotal role for Metro in the planning and provision of community services and as a leader in social planning.

1994:

- The Culture Plan recognized Metro's expanding cultural portfolio, the growing importance of culture in the Metropolitan economy, and changing demand for culture caused by the increasing diversity of the population.
- A new Official Plan, "The Liveable Metropolis", provided a long-term planning strategy to improve the quality of life in Metro Toronto through an integrated approach to land use planning, management of environmental, economic and social change.

THE CURRENT METROPOLITAN TORONTO MANDATE

As the above review of the rationale for the creation of Metro has demonstrated, the original two tier model of government and division of upper and lower tier responsibilities responded to a particular set of conditions in the early 1950s. The way in which

Metropolitan Council's responsibilities evolved also illustrates that Metropolitan Toronto was not intended to be a temporary mechanism to resolve the crises of the day. The respective upper and lower tier responsibilities were sorted out over a 20 year period according to a fairly consistent, if implicit, set of criteria. The evolution of responsibilities since then has been Council driven within the framework of a legislative mandate more or less cast by the mid 1970s.

Division of Upper and Lower Tier Responsibilities

Today, the Metropolitan level has exclusive responsibility for:

- borrowing and issuing debentures;
- public transportation;
- police services;
- ambulance services;
- social services; and
- traffic control.

The constituent area municipalities now have exclusive responsibility for:

- fire protection;
- local distribution of hydro electric power;
- public health;
- recreation and community centres;
- industrial land acquisition; and
- collection of taxes.

The two tiers now share responsibility for:

- parks and culture;
- planning;
- roads;
- sewage disposal;
- water supply;
- solid waste management;

- libraries;
- economic development; and
- licensing and inspections.

(Education continues to be administered under a parallel two tiered system of Metropolitan and area school boards)

CONCLUSION

When the current distribution of formal responsibilities is compared to that of 1953, it is clear that the scope of Metropolitan responsibility increased as Metro assumed functions from the area municipalities. Some Metropolitan functions were taken over by the province or disappeared when the surrounding regional municipalities were created. There are now more shared areas of responsibility than there were in 1953. However, as in the 1950s, the respective functions of Metro and the area municipalities in areas of shared responsibility are fairly well distinguished.



THE TORONTO URBAN REGION PAST SUCCESSES AND FUTURE CHALLENGES

A background report prepared by: Clayton Research Associates Limited

June 19, 1995

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INTRODUCTION

This is one of a series of papers being prepared as background for Metro Toronto Councillors to help them make informed decisions as to the future role of Metro within the context of the Greater Toronto Area (GTA). The result of the current process will be the preparation of a report to the Task Force on the Future of the Greater Toronto Area outlining Metro Toronto's position on the functions, financing, and structure of government in the GTA.

The following questions are addressed here:

- In what ways can Toronto be characterized as a successful urban region?
- What has worked in the Toronto urban region and why?
- What pressures is the Toronto urban region likely to face over the next 10 to 20 years?
- What principles should guide public intervention in the Toronto urban region over the next 10 to 20 years?

The paper reflects the author's training and experience as a public finance economist with nearly 30 years of specialization in the urban domain - the past 25 living in Toronto but involved in consulting assignments across the country during this period. Its contents should be regarded as a "think piece" based on the author's knowledge and experience not original research.

It is hoped that the thoughts expressed in this paper will make a contribution to dealing effectively with the current malaises of the GTA and helping to lead to a more vibrant and pleasant place to live and work.

WHAT IS THE TORONTO URBAN REGION?

What has become known as the Greater Toronto Area (GTA) is composed of Metro Toronto and the regional municipalities of Durham, York, Peel and Halton.

What is an Urban Region?

An "urban" region typically refers to a geographical territory with a population density much higher than a region that is not regarded as "urban". More specifically:

- An urban region is an area with a relatively high population density that contains closely-related activities such as places to live, work, shop, be educated and be entertained.

Statistics Canada for the Census of Canada has created the concept of the Census Metropolitan Area (CMA) which defines an urban region from an economic perspective:

- A Census Metropolitan Area (CMA) encompasses an urbanized core having at least 100,000 population and adjacent municipalities having strong linkages in terms of labour market and population, (i.e., where people live and work) with the urbanized core.

GTA Not an Urban Region According to Statistics Canada

One of the key reasons the Toronto urban region was so successful in the years immediately after Metro Toronto was formed appears to be due to the fact the political boundaries of Metro coincided with the Toronto urban region boundaries as delimited by Statistics Canada at the time.

The Toronto CMA boundaries (as defined by Statistics Canada for the 1991 Census) do not coincide with the GTA (see attached map). The CMA (1991 boundaries) excludes four important urban municipalities that form part of the GTA:

- in the east, Whitby, Oshawa and Clarington are part of the Oshawa Census Metropolitan Area; and
- in the west, Burlington is part of the Hamilton Census Metropolitan Area.

The Toronto CMA also includes municipalities which are part of Simcoe County (New Tecumseth and Bradford-West Gwillimbury) and one municipality in Dufferin County (Orangeville) which are not part of GTA.

Delineating the Toronto Urban Region

Few would feel comfortable with restricting the boundaries of the Toronto urban region to the current boundaries of the Toronto CMA, especially in an review of the local government structure appropriate for the urban region over the next decade or two. Such a narrow definition would exclude adjacent communities with strong and growing economic linkages with the Toronto heartland.

The Toronto and Oshawa CMAs frequently are combined to approximate the Greater Toronto Area. All major urban centres within the GTA with the exception of Burlington are included. The combining of these two CMAs makes considerable sense since there are close and growing economic linkages between municipalities in the Oshawa CMA, especially Whitby, and the Toronto CMA.

If the Oshawa CMA to the east is to be included as part of the Toronto urban region, should not the Hamilton CMA to the west, or, indeed, the St. Catharines CMA next to the Hamilton CMA, also be added? These four adjacent CMAs in some respects represent a super urban region.

There are growing economic linkages between Burlington, in particular, within the Hamilton CMA and the Toronto CMA but they are not as strong as, for example, the linkages in Whitby. Similarly, the linkages between the Toronto CMA and the Hamilton CMA are less pronounced than between the Oshawa and Toronto CMAs, and the linkages between the Toronto and St. Catharines CMAs are even smaller.

How large then should the Toronto urban region be? Should it include:

- The Toronto CMA only?
- The combined Toronto and Oshawa CMAs?

- The combined Toronto, Oshawa and Hamilton CMAs? Or
- The combined Toronto, Oshawa, Hamilton, and St. Catharines CMAs?

The GTA as commonly defined (Metro Toronto plus Durham, York, Peel and Halton) encompasses all the major urban centres in the combined Toronto and Oshawa CMAs including the rural hinterland. Given the strong and growing linkages between the municipalities in the GTA there is merit in regarding the GTA as the Toronto urban region. Consideration might be given to expanding the GTA boundaries to include Orangeville, New Tecumseth (formerly Tecumseth, Beeton and Tottenham) and Bradford-West Gwillimbury which are now part of the Toronto CMA.

The economic linkages between the Toronto CMA and the Hamilton and St. Catharines CMAs, with the exception of Burlington, are not nearly as large.

The Case for Coterminous Political and Economic Boundaries

There are advantages to having coterminous economic and political boundaries for an urban region:

- Provision of municipal services

With coterminous boundaries one governmental body can be responsible for providing municipal services, especially for services with scale efficiencies like infrastructure for getting people to and from work and for servicing employment and housing areas.

- Financing of municipal services

With coterminous boundaries it does not matter from a property tax perspective where within the region business establishments and housing locate since the governmental body providing region-wide services can obtain property and business tax revenues from all properties in the region.

This does not mean that there cannot be a multi-tier governance structure in the urban region if municipal services can be separated between those of regional and more local concern. Only that regional types of services such as sewer, water and transportation should be provided at a regional level.

Metro Toronto Had Coterminous Economic and Political Boundaries in the Beginning

When Metro Toronto was created in 1954 its boundaries (taking in municipalities now known as the cities of Toronto, Scarborough, North York, York and Etobicoke and the Borough of East York) were the same as the boundaries of the Toronto CMA at the time.

But the Economic Boundaries Soon Outgrew the Metro Boundaries

However, this correspondence of boundaries did not last long. By the time of the 1961 Census, the Toronto CMA boundaries were expanded to take in parts of what are now known as Ajax, Pickering, Markham, Vaughan, Richmond Hill, Whitchurch-Stouffville, Mississauga, Oakville and Milton. The Oshawa CMA did not come into being until 1971.

Regional Government Reform in the Early 1970s - No Effort to Have Coterminous Economic and Political Boundaries

By the year 1971, about the time the Province created the four regional municipalities around Metro Toronto, the Toronto CMA boundaries had expanded to encompass most of the urban population of York, Peel and Halton Regions (except for Burlington). With the creation of the Oshawa CMA (in 1971) the combined Toronto and Oshawa CMAs approximated reasonably well the urbanized portions of the area now known as the GTA.

Not Much Has Changed Since 1971

The political landscape of the GTA has remained essentially the same over the past 24 years. While the boundaries of the combined Toronto and Oshawa CMAs have expanded, the added municipalities, in the main, were already part of the GTA.

- But instead of one regional government authority with a mandate to provide region-wide services to the entire Toronto urban region, as was the case in 1954 when Metro Toronto was created, there were now five regional or upper tier governments.

IN WHAT WAYS CAN TORONTO BE CHARACTERIZED AS A SUCCESSFUL URBAN REGION?

The creation of two-tiered regional government in the Toronto urban region in 1954 was a bold step in municipal government restructuring. Much has been written and said over the past 40 years about the remarkable example that Toronto is of the workable city (urban region). However, the extent and the intensity of the praise has lessened a lot in recent years.

There were many successes in the Toronto urban region, especially in the early years:

- Provision and funding of infrastructure for enormous "greenfield" growth
 - The early post-war growth pressures on the Toronto urban region were unrelenting and the then rural townships (North York, Etobicoke, and Scarborough) surrounding the core municipalities did not have the financial resources to fund infrastructure to provide serviced land for housing and industry.

The creation of Metro Toronto with responsibility for major infrastructure such as water, sewers and transportation overcame this problem. Planning and infrastructure construction was done for the entire Toronto urban region (the economic or CMA boundaries were the same as Metro Toronto's boundaries at the time). Infrastructure was financed largely through region-wide property taxes with assistance from both the Federal and Provincial Governments.

- **A relatively balanced transportation system**

The early construction of rapid transit lines has had widespread effect on the development and commuting patterns in the Toronto Urban Region. Even today a unique feature of Toronto is the large proportion of commuters to jobs in the heart of the region that use transit.

The regional road system, the subway, and the GO train have made getting around Toronto relatively easy. The Province made major contributions in the area of regional transportation by constructing and funding expressways and transit.

- **High quality governmental services**

The quality of urban services and the liveability of the Toronto urban region was exceptional given the rapid pace of growth in the early years.

Not only did infrastructure get extended to the undeveloped lands on the fringe, but major investments were made in the subway (which helped densification) and regional services such as parks. There was also concern about the environment at an early stage with the requirement that sewage had to be treated. Toronto became known as the city with safe and clean streets.

The amount of greenspace, especially along the rivers and streams flowing to Lake Ontario, has long been an enduring feature of the Toronto urban region.

- **A strong downtown core and the lack of widespread slums**

The flight of business to the suburbs from the central city has been a lot less pronounced in the Toronto urban region over the past 40 years than in major U.S. urban centres.

Consequently, despite recent problems, Toronto's central area remains relatively healthy. Toronto was able to avoid the massive run-down areas that characterized larger U.S. urban centres. While there were pockets of tarnished housing, this was more the exception than the rule. Part of the reason for this was the effort to disperse public housing throughout Metro Toronto.

- Strong employment growth and higher than average incomes

The Toronto economy until recently showed an uncanny ability to create jobs, resulting in large inflows of migrants. It also has provided its residents with jobs generating above average incomes. This in part was needed to pay the higher housing costs that have been a characteristic of the Toronto urban region over the entire postwar period - though it worsened over time.

Not all has been smooth sailing in the Toronto urban region. Many of the successes were the result of the creation of Metro Toronto with the result that a regional tier government had responsibility for and funded regional services through taxes on all properties within Metro Toronto. Over time as development, especially housing, spilled beyond the boundaries of Metro Toronto, the mismatch between economic and political boundaries has reduced the efficiency of the urban region as a whole.

The current municipal government structure is a contributing factor to some of the malaises of the Toronto urban region. Other important forces at work have included:

- restructuring of the Ontario economy, notably in older manufacturing branch plants, to counter a high cost structure and to respond to increased productivity on a North American, if not a world, scale;
- high federal and provincial deficits and debt which are contributing to excessively high real interest rates;

- provincial and federal taxes on the business sector and persons which are high relative to competitive jurisdictions; and
- the increasing tendency of the Provincial Government to impose its requirements and to involve itself in the ongoing decision-making of municipalities.

WHAT HAS WORKED IN THE TORONTO URBAN REGION? WHY HAS IT WORKED?

The Toronto urban region has benefited from a number of local and historical advantages including:

- being the largest urban centre in Canada located between Montreal on the east and Vancouver on the west;
- being in close proximity to major population centres in the U.S.; and
- becoming Canada's premier head office, financial, high-technology and administrative centre.

These factors contributed to the rapid growth of the region over the past 40 to 50 years. Toronto's role as Canada's economic heartland however is being challenged with the increased north-south trade flows accompanying the increased integration of the Canadian and U.S. economies.

In addition, much of the success of the Toronto urban region over the past 40 years has to be attributed to the bold move to create Metro Toronto. The creation of a regional body having responsibility for the planning, implementation, and funding of region-wide infrastructure and other regional services over the entire economic region was a very important move. The political boundaries of Metro Toronto have not expanded along with the Toronto urban region boundaries.

WHAT PRESSURES IS THE TORONTO URBAN REGION LIKELY TO FACE IN THE NEXT 10-20 YEARS?

Many of the future pressures facing the Toronto urban region have already emerged:

- Enhancing economic competitiveness

Without a growing numbers of jobs, and especially jobs which pay higher compensation commensurate with region's high quality labour force, the Toronto urban region will continue to have serious problems. Achieving this employment growth will not be an easy task given that many competitive jurisdictions are endeavouring to do the same.

There will be continued pressure for municipal governments to enhance competitiveness by reducing the costs of doing business in their jurisdiction ("costs" include property taxes, development charges, fees, and "red tape", e.g., processing time, regulations). Municipal costs imposed through provincial fiat will also come under increased scrutiny.

Priorities will also come into increasing conflict, particularly the requirements of a competitive economy with the goals of environmental protection.

- Accommodating population growth and maintaining social harmony

Buoyant population growth is likely to continue in the region. With the huge pool of past immigrants, Toronto is a natural destination for many new immigrants. The challenge will be to integrate immigrants into the labour force and wider community quickly.

- Promoting the efficient use of land in both built-up and greenfield areas
 - Urban areas are like living organisms that evolve over time.
 - Expansion at the fringe and redevelopment and reuse of existing properties in built up areas occur simultaneously.

Reuse and redevelopment in older parts of the region are important trends to be encouraged as the Toronto urban region continues to grow. Municipal infrastructure is often in place. At present there are numerous obstacles to this happening to the degree desired because of a lack of municipal commitment, a lengthy and uncertain planning process, and environmental remedial costs.

As well, it is inevitable that future growth will also occur in greenfield locations in the suburbs. Ways need to be found to reduce the government-imposed costs including "red tape" on new development in suburban locations to increase affordability for both household and business.

- Removing tax-created land use distortions in urban land use patterns.
 - Reforms are needed to ensure a region-wide property tax system which removes the location distortions and property class differentials of the current tax systems, especially between Metro Toronto and the other regions and the heavy taxation of business properties over residential.

Property tax reform in Metro Toronto will not only involve changes on the taxation side - there are pressures on the expenditure side as well.

The streetscape in Metro Toronto is becoming increasingly blighted and desolate as more firms close their doors and the

properties remain vacant or are torn down to minimize taxes - redevelopment of these sites are at risk because of municipalities' reluctance to accept a change in land use from industrial, often because of property tax considerations, and the high cost of decontaminating the sites.

- Finding new ways of providing municipal services

The day of making all services available to every resident and charging everybody for them even though they do not consume the service is nearing an end. New ways of providing services to the people demanding them are already being explored including charging according to usage and privatizing. This is important because the continued focus on cost minimization in the business sector and household resistance to higher taxes will make it difficult to increase taxes in the coming years.

WHAT PRINCIPLES SHOULD GUIDE PUBLIC INTERVENTION IN THE TORONTO URBAN REGION IN THE NEXT 10-20 YEARS?

There are a number of principles which can be considered in reformulating the structure and financing of municipal government in the Toronto urban region in the coming years. These reflect a number of considerations including the experience gained over the past 40 years and the pressures expected to offer challenges to municipal government in the future:

- The merits of synchronizing political and urban region boundaries

A regional political body that reflects the boundaries of the urban region could have a number of merits including the efficient provision and equitable financing of municipal services and providing a more appropriate basis for planning for future development.

- The efficient provision of public services demanded by residents and employers

The efficient provision of public services lies at the heart of municipal government. The structure of municipal government is also related to this issue.

There are three aspects to the efficient provision of services demanded. These are discussed below.

- Economies of scale

This refers to services where the per unit cost declines as the quantity of the service provided increases. For these services, such as sewer, water and transportation, it is more efficient for a larger governmental body to exploit the scale economies.

- Spillover effects

If the benefits of a particular service provided by a municipality are enjoyed in large part by people living in other municipalities, then an inefficient allocation of resources within the region occurs, because some people benefit from the service but do not contribute to the costs. Examples include the subways and expressways provided by Metro Toronto for its residents which are used by many living outside Metro. Services with large "spillovers" should be provided at a regional level.

- Segmentation of demand

At one time, public finance theorists argued in favour of a fragmented municipal structure so people could locate in the municipality which provides the package of local services that best suits their demands. Today, with prevailing technologies, it is much easier to identify the individual demands for municipal services and charge them accordingly. An example

would be garbage collection, where in some jurisdictions households are charged according the amount and type of garbage they put out. For services where the beneficiaries can be readily identified, there could be opportunities for public-private partnerships or private sector provision.

- Promote economic growth through enhanced competitiveness

Municipal governments can encourage economic growth through understanding and responding positively to the needs of the business community. Unfortunately many past and current initiatives of municipal government, often at the insistence of the Province, discourage rather than promote economic competitiveness and, hence, growth. Governments need to consider the implications of their actions, e.g., taxation, infrastructure financing, land use and environmental controls and regulations, and administrative procedures on the cost of doing business with the goal of reducing costs to only those which are essential for the achievement of other goals given their priority relative to economic growth.

- Create efficient land use patterns

The goal here is to remove institutional obstacles to the efficient use of land within Metro Toronto and in the "greenfield" suburban communities.

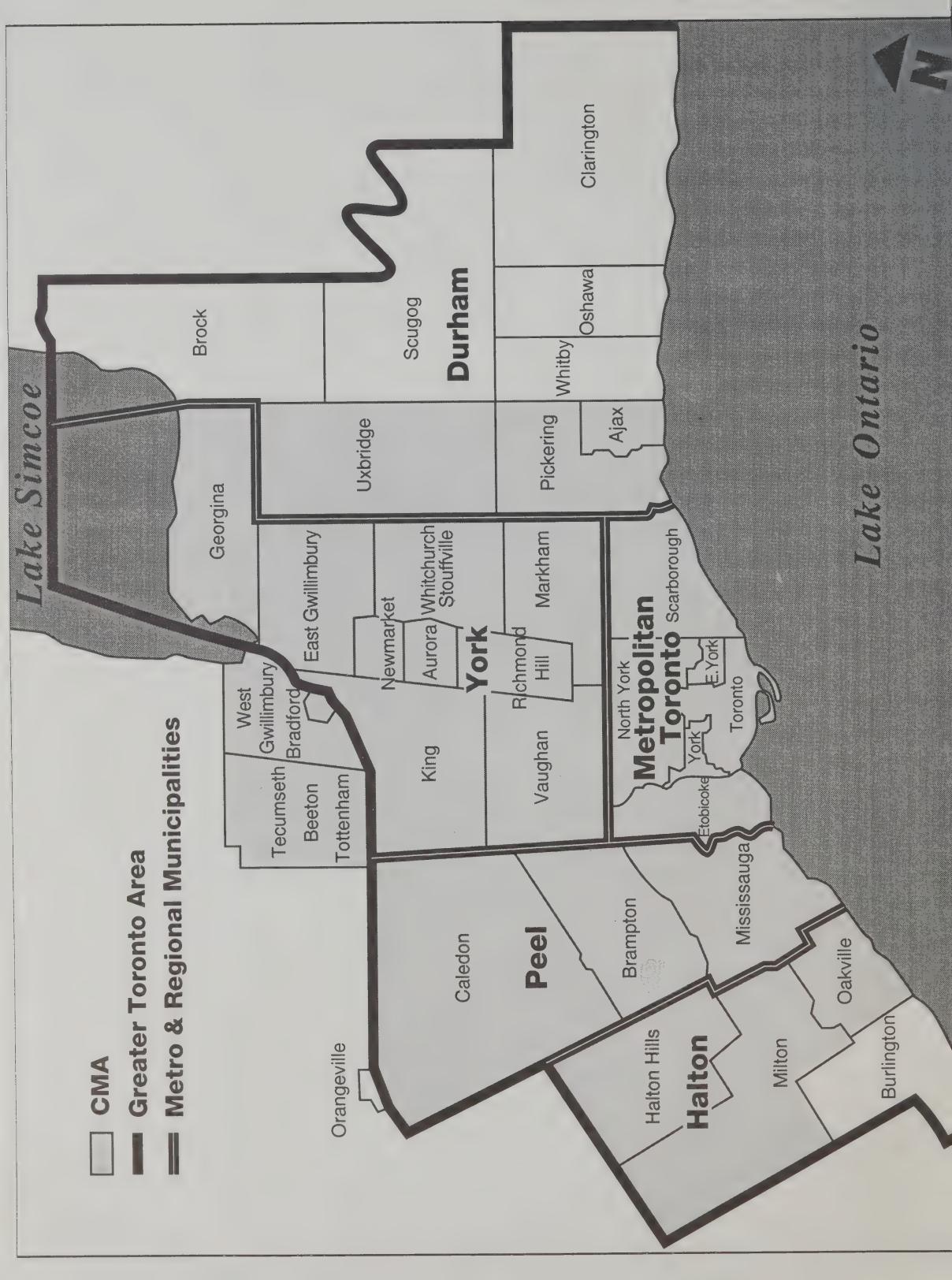
The current fragmentation of municipal governments combined with different property tax bases in a cost minimization environment promotes business locations outside Metro Toronto. Similarly, environmental regulations increase the land cost base for the reuse of obsolete industrial lands.

CONCLUSIONS

This paper concludes that:

- The choice of boundaries for the Toronto urban region is an important component of local government reform in the GTA and that the GTA boundaries are a reasonable approximation for the Toronto urban region both now and in the next decade or two.
- The Toronto urban region has had many successes over the past 40 years as a whole but these have diminished over time.
- One of the key reasons for the impressive reputation the Toronto urban region obtained in the past was the creation of Metro Toronto which had political boundaries that were coterminous with the Toronto region's economic boundaries.
- The Toronto urban region is and will continue to face significant stresses and strains including the challenges of economic competitiveness, meeting the needs of new residents and maintaining social stability, achieving efficient land use patterns, and providing services efficiently.
- Guiding principles for public intervention in the Toronto urban region in the future include the allocation of municipal service responsibilities based on efficiency, economies of scale, spillover of benefits, and segmentation of demand.

Finally, in the author's mind, there is no question that the operation, financing and structure of municipal government in the Toronto urban region are in need of major surgery. It is hoped for the future of the residents of the region that government policy-makers will recognize the scale of the problems and have the fortitude to carry out the corrective actions that are so necessary.





THE NATURE AND FUNCTIONING OF URBAN REGIONS

A background report prepared by: L.S. Bourne, University of Toronto

June 20, 1995

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INTRODUCTION: SETTING THE STAGE

This is the era of the large metropolis. In the U.S. almost 78 per cent of the nation's population now lives in metropolitan areas, and over 50 per cent in those areas with over one million population. In Canada, where (census) metropolitan definitions are more restrictive, the corresponding figures are 65 per cent and 32 per cent¹. In both countries governments are struggling with the complex challenges posed by uneven urban growth and continued metropolitan concentration, by the rapid decentralization of growth within metropolitan regions, and by the corresponding restructuring of urban economies and social landscapes. Most of the current policy debates focus on how to address the social, economic, political and environmental problems associated with this growth and on how to manage, efficiently and equitably, such massive and rapidly decentralizing urban regions.

OBJECTIVES

The purpose of this brief report is two-fold: first, to provide background information - in a concise and non-technical format - on the definition, changing nature and functioning of contemporary urban regions; and second, to offer a set of guidelines with respect to the conceptualization, delimitation and governance of those regions. Specifically, the report reviews contemporary trends in urban development, outlines alternative concepts and definitions of metropolitan areas, and summarizes the arguments for and against the region-wide management of urban areas. The report concludes with two sets of basic principles, first on the concept and delimitation of urban regions, and second on the planning and governance of those regions.

The report does not provide a detailed review of recent trends in urban growth; this information is available from other sources². Nor does it evaluate alternative forms and structures of metropolitan government in general, or the future status of Metropolitan Toronto in particular. Instead, the focus is on the functioning of urban areas and the rationale for regional delimitation, management and governance. The latter, in the language of OECD, is defined as:

"... all collective efforts focusing on the co-ordination of actors in order to produce coherent policies addressing the major problems of urban areas" (OECD, Urban Affairs Division, 1995).

THE CONTEMPORARY URBAN SCENE

Throughout most of North America, and indeed western Europe, urban areas have become more sharply divided between winners and losers in the competition for economic growth and social progress. Urban decline, particularly of older industrial cities and resource-based centres, co-exists with rapid growth. Over the 1980s several of the larger metropolitan areas in the U.S. showed absolute population declines (e.g., Pittsburgh, Cleveland), while others in the south and west grew by over 30 per cent (e.g., Dallas, Phoenix, Atlanta, San Diego). A number of medium size urban areas grew by over 50 per cent (e.g., Austin, Orlando). As national population growth rates decline the contrasts between winners and losers will become more pronounced.

Canadian urban areas have grown at similar average rates over the last decade, but without the extremes of either growth or decline³. The Greater Toronto Area (GTA), unlike its immediate neighbours in the U.S. Northeast and Great Lakes regions, grew rapidly (by over 24 per cent) during the same period, primarily through the effects of immigration. Interestingly, this was the highest rate of metropolitan growth in all of eastern North America north of the sun-belt (Atlanta, Miami). Is this high growth rate sustainable?

In every case the physical spread or expansion of urban areas - primarily the result of suburbanization - has exceeded the rate of population and economic growth, often dramatically so. Rates of land consumption continue to rise and densities fall. Even slower-growing (and declining) areas witnessed proportionally rapid expansion of their urbanized areas. The Chicago metropolitan area, for example, recorded population growth of less than 2 per cent during the last decade, but its geographic area expanded by over 20 per cent. Meanwhile, the City's population declined by almost 8 per cent.

The rate of central city population decline in comparable American metropolitan areas has been staggering. While the City of Chicago has lost roughly 25 per cent of its population since the 1950s, other cities such as St. Louis and Detroit have lost half their populations. Thus, suburban spread, combined with inner city decline, continued to be the norm in the U.S. In Canada, these trends have been considerably less pronounced to date, in part because of the more prominent role of provincial and metropolitan governments, but the overall directions are the same.

This complex mix of growth, decline and outward expansion, as in much of the western world, is set in a context of increasingly fragmented structures of government, management and service provision. In Chicago, for example, the metropolitan area now covers 3800 sq. miles and houses just over 8 million people. It is also "administered" through a chaotic mosaic of 265 local governments, six counties and nearly 1200 local taxing districts⁴. There are several regional authorities and boards operating in the greater Chicago area, but most tend to be limited in function or they are primarily advisory.

Chicago may be an extreme example even in the U.S. And, Canadian metropolitan areas on average are less politically divided, insular and internally competitive than their American counterparts. Yet, the issues raised by fragmentation are much the same, although they are influenced considerably by local circumstances. It is generally agreed that intense political fragmentation accelerates suburbanization and inner city decline, inhibits the efficient and equitable provision of regional infrastructure and public goods, encourages duplication in services, reduces the overall competitiveness of the metropolitan economy because it makes integrated economic development strategies more difficult, discourages inter-municipal transit use, and encourages social segregation and polarization. There are, of course, dissenters on each of these points; and reducing fragmentation will not in itself necessarily solve any of these problems. Regional co-ordination and governance does, however, facilitate the search for solutions. The point here is that the political separation of city from suburb, and of one suburb from another, is a significant contributor to our contemporary urban problems.

CONCEPTS AND DEFINITIONS OF URBAN REGIONS

The concept of the urban region, although vague, has been with us for a very long time. The urban historical literature is full of references to "city and region". Formal applications of the concept, however, particularly in terms of urban planning and management, are much more recent. Among the earliest and best known uses was the New York Regional Plan of 1929. This classic study was perhaps the first to explicitly recognize the necessity of focusing on the entire urban region, not just the central city, as the basis for effective long-term planning and for managing the problems of an urban society.

A region is typically defined as a geographical area, more-or-less clearly bounded, that shares certain attributes and that tends to "function" as a single, integrated entity or system. Regions may be of two general types: 1) those that are homogeneous in character or activity (e.g., wheat-growing regions), and 2) those that are nodal, in terms of their organization and operation. Urban regions, by definition, are nodal regions. They are centred on one or more urbanized cores, and extend outward as far as the linkages that bind the system extend. The most commonly used measures of such linkages, in social and economic terms, are the geographical extent of regional labour and housing markets, as these are reflected in commuting to work and real estate market listings and transactions.

In the contemporary metropolis, unlike the compact historical city, these market areas are large, diverse and increasingly dispersed. They also spread over vast geographic areas irrespective of local political boundaries. For the most part, firms, investors, employers, workers, shoppers and house-seekers do not know or care where these boundaries are.

The basic rationale for the delimitation of "functional" urban regions, and for the co-ordinated management of such regions, is simply that local political boundaries typically fail to encompass the real urban area that functions as an integrated social and economic entity. In effect, there is a growing mis-match between the structure of political jurisdictions within metropolitan areas and the socio-economic realities of contemporary urban life.

One of the historical roots of fragmented government and management has been the inability or unwillingness of city governments to annex new suburbs developing on their outer fringes. From about 1910 on, and with the exception of some of the newer cities in the U.S. south and western Canada, most city governments in North America ceased annexations.⁵ They did so either because they could no longer finance the infrastructure and services required in the new suburbs or because the new suburbs were able to incorporate and thus to resist annexation by the city. Had the older cities continued to annex, as they had in the late 19th and early 20th centuries, the political organization of contemporary metropolitan regions would have been much more in line with the functional urban area. The nature of our current urban problems might also have been much different.

The result of this divergence between the urban polity and patterns of urban development is evident in the changing ratio of city and suburban populations. In the U.S. the growth in city populations began to diverge from suburban populations during the 1920s. In 1930 central cities contained 30.8 per cent of total U.S. population, the suburbs only 13.8 per cent. By 1990 the cities contained 31.3 per cent of national population, while the suburbs increased to 46.2 per cent. The latter figure represented 59.6 per cent of that country's total urban population. In Canada in 1991, 56.3 per cent of the urban population was defined as suburban in that they resided outside of central cities. These shifting proportions are not unexpected given the fact that most city boundaries have not changed significantly since the 1920s. They also produce misleading images of both city and suburb.

FORMAL CENSUS DEFINITIONS

The obvious fact that urban growth had spread far beyond city boundaries, and widespread recognition that the separation of city and suburb in standard data sources was providing distorted images of the nature, scale and problems of urban development, eventually produced a response. The issue was formally addressed in the U.S. Census of 1940 through the establishment and delimitation of two new reporting areas: urbanized areas and metropolitan statistical areas (MSAs)⁶. The Census of Canada followed in 1951 with the

definition of census metropolitan areas (CMA)⁷. The urbanized area, defined as the continuously built-up urban area in which development exceeds a minimum average population density⁸, is the more restrictive of the two and is difficult to apply. More useful is the metropolitan area definition. The general concept underlying both the MSA and CMA is the need to combine city and adjacent suburbs into a single functional region. Specifically, a metropolitan area is defined as "a large population nucleus together with those adjacent communities which have a high degree of social and economic integration with that nucleus"⁹.

The initial building blocks in the census definition of a metropolitan area include a central city of at least 50,000, forming part of a larger "urbanized core" of at least 100,000. Outlying suburban districts are then added to the metropolitan area if they meet certain criteria of integration (e.g., a minimum proportion - often 50 per cent - of workers resident in that suburb must commute to work in the urbanized core), and of metropolitan character (e.g., higher population density). The Canadian census uses roughly similar definitional criteria, although it also defines "extended" urban areas, combining city and suburbs, for cities as small as 10,000 population. There are no equivalent (and consistently defined) statistical urban areas in Europe, however, region-wide authorities are common and functional urban regions (called FURs) have been defined for larger urban areas in all western European countries for purposes of comparative research and policy evaluation¹⁰.

There are also numerous other ways to define an urban region. These include, for example, the concept of the "daily urban system" (based on all types of daily travel), but which is basically the same as the metropolitan area concept; the much larger region called the "urban field" (based on weekly recreational and social travel), and the consolidated metropolitan area (combining adjacent and integrated MSAs, such as Chicago, Gary and Kenosha)¹¹. The equivalent criteria applied to the Toronto area would produce a consolidated metropolitan region, combining the Toronto, Oshawa and Hamilton CMAs, of over 4.8 million in 1991. For present purposes, however, we will use the terms metropolitan area and urban region interchangeably, although in theory the region is typically somewhat larger.

There were three principal incentives for creating the initial metropolitan area designation. One was obviously for information purposes: the need to provide basic data to governments and the private sector, on a consistent basis, and covering areas larger than single municipalities that together form a logical economic unit. The second incentive was for marketing purposes, based on the recognition that the consumer market of say Toronto or Chicago was much greater than the central city. Industries and businesses argued that they needed the identity and visibility of an explicit metropolitan definition, in addition to information, in order to take full advantage of (and to effectively market) the resources and attractions of the larger urban region. The third purpose was to facilitate physical planning and to assist in co-ordinating service provision and economic development strategies across the entire urbanized area.

MANAGEMENT AND GOVERNANCE: ALTERNATIVE PERSPECTIVES

To re-iterate, the basic argument for considering city and suburb together - for information, marketing and planning purposes - is that the two cannot logically be separated. They are, as noted above, combined in the same labour and housing markets. They are part of the same social space that residents use in their daily lives, and part of the same economic base that firms utilize and that retailers depend on. Their economic fortunes and social futures are intimately linked. The question here is whether the same taken-for-granted arguments for region-wide economic co-ordination within the private sector also apply to government. The private sector does not plan on the basis of out-dated local municipal boundaries, why should the state?

The debate on the merits and demerits of metropolitan-wide planning, co-ordination and government continues to be intense. Generally, there are four distinct forms of governance for metropolitan regions: 1) the totally decentralized, or politically-fragmented model, with numerous competitive local governments and few or no area-wide authorities; 2) the highly centralized model, with widely varying forms of regional government and relatively weak local governments; 3) uni-city forms, created through amalgamation or annexation; and 4) special purpose regional boards and agencies designed to deliver particular public goods,

and operating with or without an overall regional co-ordinating authority.

Almost all of the larger metropolitan areas in North America have some form of regional agencies and area-wide authorities. Typically, these were established for the delivery of hard services such as water, recreation, roads and sewerage. Those authorities may be state-mandated, privately-run or based on local co-operation. Relatively few of these authorities, at least in the U.S., have more than one function, very few address crucial social and welfare services, and even fewer are constituted as regional governments. Canadian urban areas, and particularly their provincial governments, have been much more aggressive in establishing regional authorities of varying descriptions. New regional governments, however, are now out of fashion almost everywhere. Instead, local governments in some American metropolitan areas, and their respective state governments, are moving toward establishing city-county co-operative agreements intended to co-ordinate regional service provision, to harmonize local regulatory frameworks and to share the costs of public resources.

The research literature is sharply divided on these issues. On one side of the debate are those who argue that metropolitan-wide authorities or governments are essential for the efficient provision of infrastructure and to maintain a moderately equitable distribution of public goods and services. Examples of the negative consequences of not having region-wide services are numerous. The relatively high quality of schools in older neighbourhoods of Metropolitan Toronto, which does have revenue sharing, in contrast to the relatively low quality of schools in the inner cities of comparable American metropolitan areas, which usually do not have metropolitan school districts or revenue sharing, is a case in point.

Undoubtedly there are economies of scale in the provision of most types of urban infrastructure, at least up to a point. One large transit or sewer system, on average, is more efficient than ten smaller ones. It is also generally true that the presence of regional-wide authorities, particularly those with taxing and expenditure powers, does allow for a sharing of the costs and benefits resulting from urban development, and for the redistribution of wealth through service provision (e.g., transit and school subsidies). As a result, differences in the quality of living environments within the urban area can be minimized.

On the other side of the debate are those who argue that larger administrative units are increasingly inefficient; in other words that diseconomies of scale have set in, and the per capita costs of services have begun to rise. The research evidence available here is decidedly mixed¹². Larger urban centres, on average, do tend to have higher per capita servicing costs, and for some functions diseconomies set in earlier than for others. The difficulty in making such comparisons, however, is that the services required in larger centres tend to be broader and are often more expensive than those required in smaller communities.

The argument is also made, often on ideological grounds, that insisting on uniform region-wide servicing standards restricts individual choice¹³. It does so because people within a single metropolitan service district do not usually have the choice of opting out of certain services or of accepting a lower quality of services, in exchange for lower taxes. From this perspective, the politically-fragmented metropolis is said to be the most economically efficient model because it ensures that only those services actually demanded by the public will be provided.

Critics of the latter school of thought, in contrast, argue that emphasizing individual choice and localized service provision, especially within a context of decentralized government, is self-defeating. It will, they suggest, invariably produce higher long-term costs. It may also result in a more highly polarized and inequitable urban landscape with sharp differences in the quality of services and living environments among local communities. Older municipalities typically have higher direct servicing costs, not because they are more inefficient, but largely because of their population structure, their older building stock and infrastructure, and the diverse functions they perform in and for the entire metropolitan region, and specifically those for lower income households. These groups will suffer the most in this scenario.

In one sense both arguments are correct, but only partially so. Urban areas with metropolitan governments or regional authorities, such as Toronto and Portland, or large uni-city governments, such as Calgary and San Antonio, tend to have lower levels of social inequalities among local communities. Those with fragmented government structures, on

average, have higher levels of inequalities, but lower overall servicing costs, at least in the short run. The challenge is to find an appropriate balance for any given metropolitan area: what functions should be provided at what geographic scale, and by whom. There is no single best solution. But what is clear is that the absence of any regional authority, and without direct and extensive senior government (e.g., provincial government) involvement, social inequalities will continue to increase across the metropolitan area.

A FRAMEWORK FOR EVALUATION

Drawing on the preceding review, what basic principles can be suggested as a guide for assessing alternative definitions, development strategies and administrative structures for the governance of large, diverse and increasingly complex urban regions? To conclude this report, two sets of principles are proposed; one relating to the concepts and criteria of metropolitan area (regional) delimitation, and the second to questions of regional management, planning and governance.

Basic Principles 1: Concept and Delimitation

1. Urban regions and metropolitan areas are not products of abstract speculation; they actually do exist.
2. There is no single definition or delimitation of an urban region that is appropriate for all purposes; the most suitable definition depends on the purpose and the criteria used. A commuting region (a labour market area), for example, is different from a conservation or ecological region.
3. The most common definition of an urban region, and the closest approximation we have to a functional urban region, is the census-defined metropolitan area (CMA). In the Toronto case, the GTA, although defined using political boundaries, is very similar in area and population to the combined CMAs of Toronto and Oshawa (and Burlington)¹⁴.

4. The rationale for defining such regions, for statistical, marketing and management purposes, is that the various parts of the region (city, suburb, fringe), operate as a single entity - as single labour and housing markets (albeit with numerous submarkets), as well as functioning as ecological systems and spaces of social interaction. City and suburb cannot be understood or managed in isolation.
5. The scale and degree of integration, both social and economic, among municipalities within contemporary urban regions is increasing as labour and housing markets become larger, more geographically-dispersed and more inter-dependent.
6. Some form of regional perspective and regional direction and policy co-ordination is essential since most metropolitan areas are politically-fragmented. In almost all cases local municipal boundaries are out-dated, and considerably under-estimate the physical and economic size of the region. Toronto is a clear example of under-bounding urban development, even with the existence of the Metropolitan municipality¹⁵.
7. The boundaries of metropolitan regions are seldom precise; urbanized landscapes and economies blend into predominantly rural ones.
8. The margins of these regions extend outward from the urbanized core as far as the influence of that core dominates local housing and labour markets, commercial activities, life styles and land prices.

Basic Principles 2: Planning, Management and Governance

1. Urban regions, as both market areas and social spaces, should be "managed" as a functional entity to facilitate economic growth, efficiency and competitiveness, the co-ordination of public service provision and the sharing of the social costs and benefits that flow from urban development.
2. The geographic size of the management area should, in theory and in practice, conform to the dominant market areas (e.g., labour markets, real estate areas).
3. The most suitable framework for the management and governance of a metropolitan region will vary from place to place, and in many instances will not necessarily involve a formal metropolitan government structure.

4. The services provided at different jurisdictional levels within the region should be those that can be most efficiently provided at that level: some services will be primarily local, some will be community-wide, others will be region-wide. The rule of thumb is that the lowest level of government or authority that can provide the service efficiently, while maintaining social equity, should have the responsibility. Efficiency and equity, in turn, must be defined over the entire region not over some small arbitrary part of it.
5. The economic vitality and external competitiveness of all parts of an urban region depend on combining the strengths and market attributes of the whole region. Silicon Valley, despite common perceptions, did not develop in isolation, but rather as an integral part of a large metropolitan region (San Francisco-Oakland-San Jose CMSA) with immense social and economic resources. In the local case, Markham, Brampton and Mississauga are equally part of the larger Toronto region; like other so-called "edge cities" they would not exist in their present form without the region.
6. The social vitality of an urban region depends on sharing the social costs and responsibilities of growth and change in the region, particularly with respect to the most disadvantaged in society. The fact that the poor may be disproportionately concentrated in a few jurisdictions does not absolve other jurisdictions in the region from sharing the social burden. These poor belong to the metropolitan area, if not the entire province.
7. A politically-fragmented metropolitan area, with weak or non-existent regional governance, can contribute to higher levels of social inequality and to a depressed inner city as investors, employers and residents seek out artificially low-cost locations.
8. In the long run a severely depressed inner city impacts on social stability and the quality of life throughout the metropolitan area.
9. The most successful urban areas, in social and economic terms, tend to be those that have achieved some form of regional co-ordination and city-suburban co-operation, and specifically those with some form of revenue-sharing; those where local governments have "pooled" their assets (e.g., labour skills, financial institutions, industrial innovation) for economic renewal and collectively addressed their joint liabilities (e.g., pollution, congestion, poverty); and those who have managed to limit differences among municipalities in the quality of local services and living environments.

10. Cultural, social and educational facilities, and the quality of urban life generally, are now prime determinants of urban economic growth. Such facilities are almost all regional rather than local in their clientele and their impacts.
11. One of the most difficult challenges is to encourage greater awareness and appreciation of the importance, for long-term economic viability, of a regional perspective on urban development; that is, to encourage regional/metropolitan thinking and action.
12. The restructuring of local municipal government, even when set within a fragmented metropolis, is clearly not one of the major problems facing urban residents. Nevertheless, a fragmented structure of governance does contribute to creating an "uneven playing field" for the operation of land and building markets and for urban development in general. It does so by encouraging development to concentrate on those municipalities with the weakest regulatory environment and the lowest level of taxes. This unevenness is not only inequitable, it is also economically inefficient. Reducing fragmentation and encouraging effective regional policies and governance, will not in themselves solve urban problems, but they can contribute to levelling the playing field on which development takes place.

As Henry Cisneros, former Secretary of the U.S. Department of Housing and Urban Development, and former Mayor of San Antonio, argues: "urban regionalism", which he defines as metropolitan-wide co-operation, provides the "new geography of opportunity" in terms of encouraging economic growth¹⁶.

13. Urban regions will be managed; the question is how and by whom. In the absence of metropolitan authorities, agencies or formal governments, other forms of "implicit governance" will of necessity take their place. Usually these forms involve informal public-private coalitions (sometimes called hidden governments), private corporations and other market actors, institutions, as well as the effect on the pattern of urban development of local differences in municipal regulations and taxes, and entrenched local self-interest. Is this the way to design a region?

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ENDNOTES

1. The Toronto, Montreal and Vancouver metropolitan areas contained 31.6% of the country's population.
2. Recent overviews of urban development include Hart (1991), Downs (1994) and Frey (1993 and 1995) for the U.S., and Frisken (1994), Sewell (1994) and Bourne (1995) for Canada.
3. Among the larger centres, only Sydney-Glace Bay (NS) declined in absolute terms.
4. The Economist, Oct.15, 1994.
5. The historical experience with annexation and metropolitan government in Toronto is reviewed in Lemon (1985).
6. The U.S. Bureau of Management and Budget defined 284 metropolitan statistical areas (MSAs) in the 1990 Census, housing over 193 million people.
7. The Census of Canada in 1991 defined 25 census metropolitan areas with a total of 16 million people. In recognition of the fact that cities smaller than 100,000 population also have suburbs, the Census defined another category called census agglomeration (CAs) for all urban areas of over 10,000 (but under 100,000) population. These definitions are reviewed in Bunting and Filion (1991).
8. Typically that minimum density is 1000 persons per square kilometre.

9. Statistical Abstract of the U.S., 1991, p. 3.

10. A summary of the European experience with functional urban regions is provided in Cheshire (1989) and Pumain (1994).

11. The U.S. Census in 1990 defined 12 consolidated metropolitan statistical areas (CMSAs) in those situations in which single metropolitan areas (MSAs) are adjacent and their labour markets overlapping (e.g. Dallas and Fort Worth; Washington and Baltimore; Chicago-Gary).

12. A detailed review of the literature on the servicing costs of alternative forms of urban development is provided in Frank (1989).

13. This school of thought is generally referred to as the public choice paradigm.

14. The major difference between the CMA (metropolitan area) definition and that of the GTA, in addition to the inclusion of the Durham region (which is largely the Oshawa CMA), is the inclusion of Burlington (part of Halton region) within the GTA. In the Census, Burlington is part of the Hamilton CMA.

15. The City of Toronto, as the traditional central city of the region, now contains only 15% of the metropolitan area population. Metro Toronto, which at its inception accommodated nearly 90% of the region's population, now houses only one half of that population. Over time Metro has become the central city of the region while the City has become its inner city.

16. H.G. Cisneros, 1995. Regionalism: The New Geography of Opportunity. Washington DC: Department of Housing and Urban Development, March.



REVIEW OF METRO'S FISCAL REFORM INITIATIVES

A background report prepared by: Corporate Planning Division

June 19, 1995

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INTRODUCTION

Metro has played an important role in fiscal reform and has made significant contributions to the municipal finance debate. Recent examples of Metro's direct involvement in advocating fiscal reform include adopting reassessment plans in 1989 and 1992; providing direct input to the Fair Tax Commission, the disentanglement initiative (1992-93) and the Provincial-Municipal Financial Relationship Committee (the Hopcroft Report, 1991); and issuing discussion papers on Metro's finances such as "Metro Toronto Matters: An Agenda for Fiscal Reform in Metro Toronto" (1995) and "The Crumbing Financial Partnership" (1989). The major recommendations and ideas on financing reform proposed in these initiatives, and summarized in this report, represent the outcome of Council's substantial investment in consultations with the public, business groups, public sector partners, the province, and other stakeholders. Council's input to the Task Force on the Future of the GTA represents another opportunity to continue Metro's commitment to improving the municipal finance system.

The Task Force on the Future of the GTA was established with an immediate mandate to recommend reforms that address the municipal finance problems that affect the economic competitiveness of Metro Toronto. The task force has commenced its review of the municipal finance system and of recent studies which propose changes to the property tax system. To date, the task force has not indicated which options it will be examining in greater detail and which, in all likelihood, will constitute the basis for its proposed reforms. Until such proposals are made and the impacts are known, the development of any Metro position(s) at this time may be premature.

In preparation for a fiscal reform submission to the task force, it would be useful for Council to review both its previous financial reform initiatives along with the principles that underlay a sound municipal finance system. Council can evaluate its previous financial reform efforts against these principles and determine which ones may be considered as part of a fiscal reform strategy. In the interim, the Chief Administrative Officer has identified, in a letter to Anne Golden (see appendix), a number of options recommended for study.

The purpose of this report is to provide an overview of the various Metro efforts to reform the municipal finance system. The companion report prepared by Enid Slack, entitled "Principles of a Municipal Finance System", discusses the principles that support a reasonable and sustainable municipal finance system.

METRO'S EFFORTS TO REFORM THE MUNICIPAL FINANCE SYSTEM

Changing Municipal Role

The rationale supporting the current municipal finance system generally does not seem to work well in Ontario. The municipal finance system has not reflected the changing role that municipalities have undergone and is a dated outlook on municipal governments as primarily providers of services to property (e.g., fire and roads). This static view may well have characterized municipalities years ago, but over time, local responsibilities expanded and municipal governments have come to play a larger role in both the local economy and quality of life. Metro, for example, was assigned responsibility for a number of people services - a clear variation from the traditional municipal role as a provider of services to property. Included among these added responsibilities are welfare assistance, homes for the aged, day care, hostels and ambulance services. Metro's financial contribution towards these services has been funded largely through the property tax. A number of studies have questioned the appropriateness of the property tax as a source of funding for these human services.

As the role of municipalities evolved along with new responsibilities, the local revenue base, including the property tax, provincial grants and user fees, adjusted very slowly to fund these additional services. However, the level of provincial grants, especially in recent years, has been modified as a result of the deficit fighting problems of the province. This is perhaps best illustrated by the significant reductions to the unconditional grants resulting from the province's social contract and the expenditure reduction program. Metro's unconditional grants alone have been cut \$79 million under both these provincial initiatives. Although provincial grants as a share of Metro's total revenues have actually increased over the past

few years, from 36 per cent in 1990 to 51 per cent in 1994, this has resulted mainly from substantially increased welfare spending during the recession and masks the underlying effect of grant modifications. The largest share of provincial grant shortfalls have been offset through the property tax. Many municipalities have called for a new municipal act, such as the recent legislation in Alberta, to redefine municipal responsibilities and financing.

Themes in Fiscal Reform

The development of strategies to combat increased dependency upon the property tax represents a major component of Metro's financial reform agenda. Metro's efforts over the past twenty-some years can be categorized into three distinct yet interrelated themes:

- rationalizing municipal services
- revenue diversification
- property assessment reform

Rationalizing municipal services

Current spending responsibilities funded from property taxes need to be sorted out between those that belong on the property tax base and those that should be funded from other revenue sources. Metro has argued that municipal responsibility should be limited to those services that have been traditionally delivered locally and financed from the property tax base (e.g., police, fire and parks) and user fees (e.g., water and sewer), and whose conditions governing the demand for these services remain largely under the control of municipalities.

A number of studies, such as the Hopcroft report and the Fair Tax Commission, have indicated that services which provide benefits to the general public or which represent a redistribution of income, such as general welfare assistance and education should be removed from the property tax and funded from revenue sources that better reflect an ability to pay. In addition, those services which demonstrate a direct relationship between services consumed and clearly identifiable consumers should also be removed from the property tax and funded through user fees.

General welfare assistance: The disentanglement initiative generally represented the type of rational ordering of services that Metro has argued would lead to improved accountability to the public for program management, delivery and overall spending among governments. The removal of GWA from the property tax - the key feature of disentanglement between the province and the municipal sector, has continually been supported Metro. The extensive role that Metro plays in the funding and delivering social services made it a pre-eminent participant during the disentanglement initiative. Metro has argued that GWA constitutes income redistribution and should be funded by the province, although Metro could remain involved in the delivery of GWA services on a fee for service basis.

Should GWA payments not be removed from the property tax base, then the sharing of the municipal GWA contributions amongst GTA municipalities could be considered, as discussed in "Agenda for Fiscal Reform". The urbanized portions of the GTA have increasingly become one economic region whose municipalities jointly benefit from investments in infrastructure and economic spin-offs generated regionally. GWA payments serve as "economic stabilizers" to these communities during difficult economic circumstances and could be shared in order not to overly burden any one municipality with GWA contributions. In addition, it is becoming increasingly difficult to distinguish between place of employment and place of residency due to the large volume of cross commuting in the GTA. A formula to establish the basis for sharing the municipal GWA portion would need to be determined.

Education Finance: The school board portion of the property tax bill in most Ontario municipalities amounts to more than half of the total. It goes without saying that any progress towards addressing Metro Toronto's school board dependency on the property tax (all other things held constant) will improve Metro Toronto's competitiveness. Many municipalities across Ontario including Metro Toronto, supported the Fair Tax Commission recommendation to remove education from the residential property tax. However, it is evident that such a measure would require adjusting either income or sales taxes or both to absorb \$3.5 billion in residential property taxes. This tax shift would result in increased tax rates to a degree that negatively impacts Ontario's competitiveness.

Close examination of the Metro Toronto School Board's (MTSB) higher spending relative to the other GTA school boards is largely a function of the high volume of special needs concentrated within Metro Toronto (e.g., language training). Little or no provincial grant funding is provided for such programs to the MTSB because existing provincial education funding formulas indicate that Metro Toronto's relatively higher value assessment base can sufficiently fund approved expenditures. Although the MTSB is eligible for program specific grants such as language grants, this funding is not received because the MTSB experiences an overall negative grant which cancels out any eligible grant funding.

"Agenda for Fiscal Reform" states that provincial education grant funding formulas need to be adjusted to recognize the sizeable special needs experienced by the Metro Toronto school boards and others. Grant calculations should include variables that measure broad socio-economic characteristics such as local levels of poverty, level of parental education attainment and income background and local immigration levels, which may indicate special or above average pupil needs. In addition, certain school board expenditures which support elements that are more typical of the general social safety net (e.g., family counselling) should be entirely funded by the province. The removal of such social benefits from the property tax base is consistent with the position that GWA should not be funded from the property tax.

"Agenda for Fiscal Reform" also stated that should education expenditures remain on the property tax base, then the option of sharing non-residential assessment for the purpose of establishing a provincial education property tax could be considered as an alternative. However, given current provincial deficit pressures and future reduction in federal grants, safeguards to ensure that the province allocates property tax resources to fund education, for which the province is responsible, and not other provincial commitments, are vital. The pooling of non-residential assessment for education purposes has been practiced by other provinces in Canada for sometime. The Metro Chief Administrative Officer indicated to the task force that detailed impacts are required in order to evaluate this option.

Revenue diversification

Metro has argued that if municipalities continue to assume expenditure responsibility for additional services, municipal governments should be given access to alternative revenue sources in order to adequately fund these services. In other words, the Province cannot expect municipalities to take on additional responsibilities without providing them with the financial means to deliver the services. This would only exacerbate over reliance on the property tax. It is anticipated that the property tax will continue to experience increased pressure over the next few years as the province introduces further changes in grant funding levels in order to cope with reduced federal transfers as announced in the federal government's 1995 budget.

Some have argued that municipalities should be given access to other revenues sources to fund existing expenditures so that there is greater revenue diversification as is the case in U.S. cities. Many other provinces have instituted revenue sharing agreements with their municipalities. In British Columbia, for example, municipalities have access to a share of provincial income, sales and gasoline taxes.

A number of new revenue sources including gasoline, hotel and telecommunication taxes and lotteries have been identified as potential alternative revenues for Metro. In addition, existing user fees, as argued by the Fair Tax Commission, can be expanded or new ones imposed to charge specific consumers for municipal services directly consumed (e.g., waste collection and disposal).

Business occupancy tax: There are five rates of business occupancy taxes applied as a percentage of a property's realty assessment: 75 per cent for distillers, financial institutions and warehousing; 60 per cent for manufacturers; 50 per cent for retail and professional services; 30 per cent for gas and service stations and any unassigned uses; and 25 per cent for parking lots. Many, including the Fair Tax Commission, have called for the abolition of the business occupancy tax. However, the business occupancy tax represents a large revenue source which cannot easily be replaced by any single source.

Many alternatives to the business occupancy tax have been proposed, including payroll taxes, rolling the five rates into one, and merging it into the realty tax and made the responsibility of the landlord to collect. These alternatives have advantages and disadvantages which need to be reviewed including their impact on business competitiveness. In its response to the Fair Tax Commission, Metro supported the review of alternatives to the business occupancy tax.

From the Metro perspective, fiscal reform over the short-term could address those responsibilities that should be removed from the property tax base (e.g., general welfare assistance), the discrepancies in provincial grants between Metro Toronto and the surrounding GTA municipalities, particularly as they relate to the education system, and the need to provide municipalities with access to alternative revenue sources. Progress with these measures over the short-term would aid assessment reform by reducing the amount of taxes required.

Property assessment reform

In recognition of the importance of the property tax as the only tax source exclusively available to municipalities in Ontario and because the property tax constitutes the largest source of revenue to local governments in Metro Toronto, Metro has continually stated that the property assessment based upon which property taxes are applied must be fair and consistent. Metro has been actively involved in assessment reform over the past fifteen years, primarily through its efforts to implement a combination of provincial reassessment programs with Metro defined phase-in measures of tax relief.

Perhaps no other issue has galvanized public scrutiny of the property taxation system as assessment reform. Furthermore, it is argued that assessment reform could be achieved with relatively less controversy if the total amount of the property tax bill were reduced through other measures of reform, such as the removal of GWA.

Market value assessment: Metro reviewed alternative assessment and taxation systems (including market value, unit value, site value, reassessment at time of sale, poll taxation, and income taxation) in 1989 and concluded that market value was the most appropriate

method on which to base an assessment system. Council subsequently approved a reassessment plan based on 1984 market values. This plan was revised (at the request of the province) to use 1988 market values and included phase-in measures. The plan, as adopted by Council in 1992, was rejected by the province. Council subsequently approved a plan in 1993 using equalized assessment to apportion the Metro levy in a manner consistent with other regions which have not implemented reassessment. This plan was also rejected by the province.

The Council approved reassessment plan was introduced as a means of updating property assessments, some of which date back to 1940 values, and correcting inequities within the classes of property. Although the plan would not have corrected the current tax burden discrepancy between property classes (i.e., residential and non-residential classes), the reassessment plan was considered as the first step before further reforms regarding assessment and taxation issues could be addressed. Both the disentanglement initiative and the report of the Fair Tax Commission represented opportunities to initiate significant municipal finance reforms. However, these proposed reforms have not proceeded.

The Fair Tax Commission stated that the state of the assessment system in Ontario is in disarray. As part of its input to the Fair Tax Commission, Metro indicated that rather than abandoning market value as the basis for the assessment system, as recommended by the commission, efforts to improve the existing system should be undertaken to address the inconsistencies in assessment practices and the distortions that have developed over time.

In order to address the inherent flaws or to 'level the assessment playing field', it was argued that the assessment system should produce fair and consistent market values. Municipalities should implement full market value assessments, but be provided with the flexibility to apply different or variable mill rates for different classes of property (compared to the existing two mill rates for residential and non-residential classes). This flexibility would enable municipalities to address their own particular taxation equity problems, while making any variation in property class tax burden visible to the public and making councils accountable for this variation. Current tax burdens are hidden within the existing assessment system which is partly why the current system is poorly understood by the public. The province

would likely need to establish some rules to limit the amount by which mill rates can vary from some provincial average in order to prevent municipalities from engaging in preferential tax treatment to attract business.

Metro's support for a market value assessment is consistent with other jurisdictions in Canada, the United States and elsewhere that are also dependent upon the property tax as a major source of tax revenue. Metro has acknowledged that assessment reform, regardless of method used, will remain contentious because there will always be 'winners and losers'. Nevertheless, a fair and consistent basis for property assessment in Metro Toronto is vital if the municipality as a whole is to remain competitive. No one wins if businesses cannot operate within Metro Toronto.

CONCLUSIONS

Metro has been directly involved in many reform initiatives that encompass most segments of the municipal finance system. A review of Metro's financial reform initiatives provides key messages for the GTA Task Force to consider when evaluating the feasibility of options.

- Those services that represent income redistribution should not be funded from the property tax.
- The appropriate use of the property tax to fund municipal services enhances municipal government's accountability to the taxpayer and ideally promotes the public's understanding of how services are funded. This plays an important role in anticipation of other reforms, particularly reassessment because some taxpayers will object to paying more taxes as a result of a reassessment and will likely demand that property taxes are justified as the basis for funding services.
- Metro has argued the need for municipalities to access additional sources of revenue and expand user fees in order to fund increasing service responsibilities without further burdening the property tax. A sound financial system encourages diversity

in the revenue mix which provides municipalities with added flexibility in funding expenditures.

- The guidelines for assessment reform must be outlined by the GTA Task Force in order that the province and municipalities fully understand the timeframe and commitment necessary to undertake any proposed reforms. Metro's experience with assessment reform indicates that there is never an ideal time to implement reassessment and delay makes the task more difficult over time. It bears repeating that reductions in the amount of the tax bill through any of the reforms required (e.g., welfare, education), will assist the implementation of assessment reforms.

The common principles that underlie a strong municipal financial system, as identified in the companion report, provide a yardstick against which to measure Metro's actions for fiscal reform. This evaluation can assist Council in developing a position for submission to the task force.



PRINCIPLES OF A MUNICIPAL FINANCE SYSTEM

A background report prepared by: Enid Slack Consulting Inc.

June 19, 1995

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INTRODUCTION

The purpose of this report is to develop a set of principles that support a strong municipal finance system and to show how these principles can be used to evaluate different options for financial reform in Metro Toronto and the Greater Toronto Area (GTA). The options evaluated are those that are presented in the accompanying CAO's report: matching services to governments (rationalizing municipal services), revenue diversification and property assessment reform.

THE ROLE OF MUNICIPAL GOVERNMENT

The role of municipal government needs to be considered in the context of the role of government in the economy in general. The three major functions of government are: to provide goods and services, to redistribute income and to stabilize the economy (to maintain stable employment, prices and economic growth). It is not appropriate for local governments to carry out monetary and fiscal policies for stabilization purposes nor is it appropriate for them to focus on redistributing income. These functions are performed better by federal and provincial governments.

The main role for municipal government is to provide goods and services within a specific geographic area. Indeed, to provide goods and services efficiently, a significant municipal government role is required. Ideally, the government jurisdiction that provides these goods and services should include all of those people who demand the same public goods and the benefits should be enjoyed by residents of those jurisdictions. Where the benefits of the service spillover beyond local boundaries, there may be a role for the province to ensure that the optimal level of service is provided.

PAYING FOR MUNICIPAL SERVICES

To provide goods and services efficiently, municipal governments should charge directly wherever possible. In this way, the user of the service knows how much it costs to provide

it and can make an efficient, informed choice on how much to consume. When consumers are not charged directly for their use of a service, they are likely to consume too much or too little. A user fee is similar to the price charged in the marketplace for privately produced goods and services. User fees can be used to finance services such as water, sewers, transit, waste management, and recreation.

Direct charging is not always possible, however. Direct charging cannot be used where income distribution is an important consideration, for example in the provision of welfare services. Direct charging is also difficult to use where the benefits of a service spillover to residents in other jurisdictions. For example, the benefits of education are enjoyed not only by people in the jurisdiction in which the education expenditures are made but also by people in other jurisdictions. To finance these services, it may be necessary to use broad-based taxes such as income or sales taxes.

Direct charging is also not appropriate where it is difficult to identify beneficiaries or where it is costly to exclude those who do not pay. These services provide a general benefit to the community but the individual beneficiaries cannot be easily identified. These services include, for example, parks, roads, police, snow removal and planning. To finance these types of services, municipal governments should levy taxes that are borne by local residents. The property tax is appropriate for financing services that are of general benefit to the people in the community.

PRINCIPLES FOR EVALUATING REVENUE SOURCES

A number of principles can be used to evaluate the property tax and other revenue sources:

Fairness: The two principles of fairness are benefits-received and ability-to-pay. Under the benefits-received principle, people pay for services according to the benefits they receive. Fairness means that people receiving similar services should pay similar taxes or charges. Taxpayers are more likely to support taxes which are directly related to services. For example, if people believe that the revenues from a local fuel tax are being used to finance local road improvements, they are more likely to perceive that the tax is fair.

Under the ability-to-pay principle, people pay for services according to their ability to pay taxes. Fairness means that people in similar circumstances pay similar taxes; people in different circumstances pay different taxes. In the case of the property tax, for example, people tend to compare their taxes with those of their neighbours. They perceive the tax to be fair if people in comparable houses are paying comparable taxes.

Efficiency: Taxes represent a cost to the taxpayer for the government services that they consume. In response to taxes, taxpayers will alter their economic decisions to minimize their tax liability. Individuals may change where they live and work, the improvements they make to their houses and other economic decisions. Businesses may alter where they locate their businesses, how many people they employ and other business decisions. An efficient tax is one that minimizes the negative impact of the tax on economic decisions made by individuals and businesses.

Accountability: To the extent that citizens finance the activities of municipal governments, accountability means that taxes should be designed in ways that are clear to taxpayers so that policymakers are held accountable by taxpayers for the cost of government. To the extent that local public services are financed by provincial transfers, municipal governments need to be accountable to the provincial government. Accountability in the public sector is like the "bottom line" in the private sector.

Accountability to taxpayers is most easily achieved when expenditures are linked to taxes or fees. People know what they are getting for the tax paid and are better able to judge whether the expenditure level is appropriate. For municipal governments to be accountable to taxpayers, the tax system needs to be simple and understandable. If taxpayers do not understand how their taxes have been calculated, they are less able to understand if the amount levied is fair and appropriate.

Local Autonomy: Since the main role of municipal government is to provide the services that people in their jurisdiction want, the municipal government needs to have the autonomy to provide those services. If residents of a community want more (or less) of a service, for

example, the municipal government should be able to respond to those demands. To respond to local demands, municipal governments require access to locally generated revenues such as property taxes and user fees. Without local taxing authority, the community will have little control over the quantity and quality of services it receives.

Administrative Fairness: Administrative fairness refers to how a tax is implemented. A fair tax that is badly administered can become an unfair tax. The determination of the tax base, for example, has to be systematic and understandable to the taxpayer. If the property is based on market value but the values are out of date, then a potentially fair tax will be inequitable. People in similar housing will not be assessed at a similar proportion of market value and will not be paying similar taxes.

Revenue Stability: For municipal governments, it is desirable to have a stable source of revenue. Volatile revenue sources can mean possible increases in tax rates or cutbacks in services. Stable revenue sources mean municipal governments will be able to maintain stable levels of service.

APPLYING THE PRINCIPLES TO THE ISSUES

Metro's initiatives to reform the municipal finance system have focused on three themes:

- matching services to governments (rationalizing municipal services)
- revenue diversification
- property assessment reform

Matching services to governments

The role of municipal government, as noted above, is to provide goods and services within a particular geographic area. Where there are income distribution considerations in the provision of a service, it is appropriate for the province to fund the service. Where the benefits of a service spillover beyond local boundaries, there is also a role for the provincial government to fund some portion of that service. Based on these principles, local responsibility for welfare and education have been questioned.

Welfare

Welfare assistance is a form of income redistribution. For this reason, it is more appropriate for welfare to be funded by the provincial government. Further, the income tax (which is a provincial revenue source) is a more appropriate tool for redistributing income than is the property tax (which is a municipal revenue source) because the income tax better reflects the ability-to-pay of taxpayers.

There is general agreement that welfare should be removed from the property tax at the local level and be funded by the province. Provincial funding of welfare has been recommended by Metro, the Hopcroft Report and Fair Tax Commission. Welfare is provincially funded in six Canadian provinces (Newfoundland, Prince Edward Island, New Brunswick, Quebec, Saskatchewan and Alberta).

Education

There is less general agreement over which level of government should fund education. Education is a service that is characterized by spillovers. It is also a service for which equality of opportunity is important: everyone should be entitled to at least a basic level of education, regardless of the wealth of the community in which they live. For these reasons, it has been argued that education expenditures should be funded by the province from general provincial revenues (as is done in Newfoundland, Prince Edward Island, New Brunswick, Alberta and British Columbia)

On the other hand, it has been argued that some local funding is required to permit local autonomy and accountability. If one community wants to provide a different level of service than permitted by the amount of funds received from the province, local funding would provide the opportunity to do so (some local funding is used in the five remaining provinces). The question of responsibility for funding education boils down to a tradeoff between equity (fairness) on one side and autonomy and accountability on the other.

In those provinces where there is complete provincial funding of education, the provincial government generally levies a property tax on non-residential property (in some provinces there is also a provincial levy on residential property taxes). A number of bodies have

recommended a provincial uniform property tax on non-residential property to be used for education in Ontario (for example, the Board of Trade, and the Fair Tax Commission). This is known as "provincial pooling". The rationale for provincial pooling is based on equity and efficiency. On equity grounds, it is argued that the benefits received by businesses from a well educated and highly skilled labour force are linked to the education system in the province as a whole and not necessarily the expenditures made in a particular jurisdiction. On efficiency grounds, it is argued that a uniform province-wide tax will reduce the incentive for businesses to re-locate in response to property taxes.

The advantage of a provincial property tax on non-residential property for Metro Toronto is that the non-residential property tax would fall (because the average rate of tax across the province is lower than the rate in Metro Toronto).

There are two potential disadvantages from provincial pooling. First, there is no guarantee that the property taxes collected would be used for education. In those provinces that levy a provincial property tax, the tax goes into the general revenues of the province and is not earmarked for education.

Second, it is not clear how the funds collected by the province would be distributed among the school boards in the province. Currently, the Metropolitan Toronto School Board receives virtually no provincial grants and it funds education almost entirely out of property tax revenues. Also, its expenditures per pupil are higher than the provincial average. If property taxes were pooled province-wide and distributed to each school board on the basis of average expenditures per pupil in the province, the Metro School Board would have less funds to spend than it does under the current system. The overall impact of provincial funding for education will depend on the formula used to distribute provincial funds.

Within Metro Toronto, a uniform rate of property tax is levied Metro-wide for virtually all education services. The revenues are pooled and used for all of the students in Metro Toronto (this is "Metro-wide pooling"). The City of Toronto, in its brief to the GTA Task Force, has recommended de-pooling for education in Metro Toronto. This recommendation violates the principle of fairness. There is a strong argument for Metro-wide pooling (and

perhaps even pooling across the GTA or Ontario) because the benefits of education are enjoyed beyond the City's boundaries (to Metro Toronto, the GTA, and maybe even the province) and because equality of opportunity is an important aspect of education.

Revenue diversification

Greater use of user fees will provide some relief to the property tax but, more importantly, user fees result in the efficient provision of services. When people know how much it costs to use the amount of water they use, for example, they will make an informed decision on how much water to consume. When services such as water are funded by the property tax, there is no incentive to use water efficiently. Further, it has been argued that non-residents enjoy Metro services without paying for them. Properly based user fees should be able to recoup the costs of providing services to residents and non-residents. To achieve efficiency, user fees are an important source of revenue to municipal governments.

Other revenue sources have been suggested for use in Metro Toronto, for example a fuel tax to finance transportation infrastructure (as is used in the Greater Vancouver Regional District). A fuel tax, if linked to transportation expenditures, can be justified on fairness grounds (based on the benefits-received principle): those who benefit from roads and transit are paying the tax.

The Report of the Task Force on Greater Montreal (the Pichette Commission) recommended that Montreal (and other core cities where benefits spillover to non-residents) should receive a proportion of provincial sales tax revenues. The recommendation was based on the recognition that non-residents contribute to the economic activity of the city but they also create costs for the city. Since the sales tax is directly linked to the level of economic activity, it is an appropriate source of funding to address spillovers.

The more revenue sources that are made available to municipal governments, the more flexibility they will have to finance expenditures and the less reliance they will have to place on the property tax. There will be additional costs, however, associated with the administration of different taxes.

Property assessment reform

Given that there is a significant role for property taxes in financing municipal services, the characteristics of the tax (such as the assessment system) need to be determined. Not only is assessment used to determine the amount of property tax to be levied but it is also used to compare the relative ability of municipalities to levy taxes. For example, a measure of assessment is used in some provincial grant formulas and in determining how the costs of Metro will be apportioned among the area municipalities.

The current assessment system in Metro Toronto is supposed to be based on market value but it is 50 years out of date and in need of reform. As a result, it does not rate highly on the principles established above.

In terms of fairness, there are three categories of inequities in the assessment system:

- **within classes of property:** for example, similar houses are not assessed at the same percentage of market value.
- **between classes of property:** for example, apartments and commercial properties are over-assessed compared to single-family homes.
- **across municipalities:** for example, commercial properties are over-assessed in Metro Toronto compared to all other regions in the GTA.

These inequities have consequences for other principles as well. With respect to the efficiency principle, the assessment system does not provide a level playing field across the GTA. Business groups have argued that the resulting higher taxation of commercial properties in Metro Toronto relative to the rest of the GTA provides an incentive for businesses to leave Metro Toronto. The tax is not accountable because taxpayers do not understand the basis for their assessments and inequities are hidden in the assessment system.

Two broad types of reforms to the assessment system have been proposed: market value and unit value.

Market value assessment

Market value is defined as the price that would be struck between a willing buyer and a willing seller in an arm's length transaction. Market value assessment, if properly implemented GTA-wide, would remove all three classes of inequities above. If implemented on a Metro-wide basis, the inequities within Metro would be removed but the inequities between Metro Toronto and the rest of the GTA would remain. A variation on market value assessment that has been proposed is a Metro-wide market value assessment within classes of property. This would remove inequities within classes of property in Metro Toronto but not between classes of property and not between Metro Toronto and the rest of the GTA.

With respect to the principle of administrative fairness, the assessment base would need to be determined in an objective, systematic way so that taxpayers understand how the value of their property is determined. An assessment system that is understood by taxpayers is also more accountable. One aspect of market value assessment that would have to be addressed is the volatility in market values which are primarily driven by the land value component of the property. The B.C. Assessment Authority has introduced a number of useful phasing and averaging techniques including annual assessment updates as a way to smooth out fluctuations in estimated market values.

There will be gainers and losers from any change in the assessment system. The losses could be cushioned in two ways: first, municipalities could be given the power to levy different mill rates for different classes of property (variable mill rates) as is done in B.C. This means that a shift in taxes onto single-family homes, for example, could be cushioned by levying a lower tax rate on these properties. Second, phase-in mechanisms could be used so that the tax burden does not increase by more than a certain percentage in any given year. A long phase-in period may be required.

Unit value assessment

Unit value assessment (variations of which have been proposed by the City of Toronto and by the Fair Tax Commission) attempts to assess residential property on the basis of land area and building area rather than market value. The unit assessment is calculated as an

assessment rate per square foot of lot size times lot size plus the assessment rate per square foot of building times building area. To determine the assessment rate per square foot, the Fair Tax Commission recommended that the rate vary by location (as reflected in rents). An assessment based on property characteristics and location is very similar to market value.

In terms of the benefits-received principle of fairness, it has been argued that unit value more closely reflects the benefits of local government because the use of water and sewers and other such services is more closely related to the dimensions of the property than to market value. Since user fees are the best way to charge for these types of services, however, it is not clear that the property tax needs to reflect these benefits. Further, many services funded from property tax revenues are people-related services (such as parks, police, and emergency services) rather than property-related services. In terms of the ability-to-pay principle of fairness, the Fair Tax Commission concluded that there was no significant difference between unit value and market value.

In terms of administrative fairness, it has been argued that property dimensions are a more objective measure than market value. When the location factor has to be determined, however, the system is like market value. In terms of efficiency, it has been argued that unit value does not distort decisions to improve one's property if the improvement does not increase the building size. With a pure market value assessment, property improvements that go beyond simple maintenance would increase the market value.

Finally, the move from the current system to a unit value system will result in shifts among taxpayers. As with a move to market value, there will be some who gain and some who lose from a change in the assessment system. Phase-in mechanisms will be required, whichever assessment system is chosen.

SUMMARY

This report has highlighted the principles that support a strong municipal finance system and has shown how these principles can be used to evaluate the current finance system and

proposals to reform it. The property tax is the largest source of revenue to municipal governments and remains the cornerstone of the municipal finance system. It is important to determine which services should be financed by the property tax and which are more appropriately financed by user fees, income and sales taxes, and other revenue sources. It is also important to design the assessment base of the property tax to reflect the principles of fairness, efficiency, accountability and administrative fairness.



CULTURAL SERVICE PROVISION IN THE GREATER TORONTO AREA

A background report prepared by Metro Parks & Culture

August, 1995

METRO
CHIEF ADMINISTRATOR'S OFFICE
Corporate Planning Division

CULTURAL SERVICE PROVISION IN THE GREATER TORONTO AREA
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INTRODUCTION

This report is one of a set of background papers prepared to assist in the development of Metro Toronto's submission to the GTA Task Force. The role of cultural services and cultural policy in the life and governance of an urban region is often overlooked. This is a significant oversight given the substantial contribution that cultural activities and enterprises make to the economy and overall quality of life in a metropolitan area such as Toronto.

The purpose of this report is to set out information that will fill the void. The report:

- outlines the importance of the cultural sector in the Toronto region;
- provides an overview of support for the arts provided by the various levels of government in the GTA;
- assesses Metro's current role in cultural services in the GTA; and
- considers the implications of GTA municipal government reform for the region's cultural sector.

ECONOMIC IMPACT OF THE CULTURAL SECTOR IN THE TORONTO REGION

Anchored by a concentration of cultural resources in the City of Toronto, the Toronto region is an important continental and international cultural centre. It is:

- the second largest theatre centre in North America, and third largest in the English-speaking world after London and New York;
- the third largest film and video production centre in North America after Los Angeles and New York; and
- ranked fourth of 343 metropolitan areas for its cultural amenities and services by Places Rated Almanac.

Cultural activities are enormously important to the local economy. Statistics Canada has calculated the 1993 direct and indirect impact of the sector in Metro Toronto alone in terms of employment, and consumer spending as follows:

- direct employment in the cultural sector in Metro Toronto exceeded 76,800 jobs or 6.4 per cent of all jobs in Metropolitan Toronto;

- direct and indirect employment generated by the sector exceeded 114,800 jobs or 9.6 per cent of all jobs in Metropolitan Toronto;
- total direct and indirect employment in the cultural sector in Metropolitan Toronto accounted for 19 per cent of all cultural jobs in Canada;
- the direct impact of the cultural sector in Metropolitan Toronto, measured by the contribution to the national Gross Domestic Product (GDP) is estimated at \$4.2 billion;
- the direct and indirect impact of the sector in Metropolitan Toronto, in terms of GDP, is estimated at \$6.3 billion;
- the total direct and indirect impact of the sector in Metropolitan Toronto accounted for 28 per cent of the nation's cultural sector contribution to GDP; and
- annual personal expenditure on cultural goods and services by Metropolitan Toronto residents exceeded \$1.89 billion in 1992, an increase of \$34 million over 1990.

CULTURAL SERVICES IN THE GTA

While the Greater Toronto's cultural amenities are concentrated in downtown Toronto, the sector is actually a system of creators, producers and distributors spread throughout the region. The cultural sector comprises four key policy areas:

- the arts;
- heritage;
- libraries; and
- cultural industries.

The Arts

Outside Metro, arts policies and programs across the GTA are commonly delivered solely by the area municipalities. These programs include grants to recreational and professional arts organizations, arts programming offered through recreation and community centres, public art policies, and the operation of municipal performing or visual arts facilities.

Many municipalities outside Metro do not make grants for arts activities. Those that do are exclusively at the local level. The largest grants programs are in Mississauga and Oakville.

Some of the major municipally operated arts facilities in the surrounding regions include:

- Markham Theatre, (Town of Markham)
- Oakville Centre for the Performing Arts, (Town of Oakville)
- Oakville Galleries, (Town of Oakville)
- Burlington Arts Centre, (City of Burlington)
- Lester B. Pearson and Heritage Theatres, (City of Brampton)
- John Elliott Theatre, (Town of Halton Hills)
- The Robert McLaughlin Gallery, (City of Oshawa)
- Art Gallery of Mississauga, (City of Mississauga)
- Art Gallery of Peel, (Region of Peel)

In addition, the City of Mississauga is constructing the Mississauga Living Arts Centre, scheduled to open in 1997.

Within Metro, arts policy is shared by both Metro and the area municipalities. Metro's principal instruments of arts policy are:

- the Cultural Grants Program;
- the O'Keefe Centre for the Performing Arts;
- the Public Art Policy, including the Public Art Policy Advisory Committee;
- smaller arts facilities such as Barry Zukerman Amphitheatre and The Guild; and
- the Cultural Advisory Committee.

Among Metro's six area municipal governments, the City of Toronto stands far and above the other five in its arts policy. Its principal instruments of arts policy include:

- grants made through the Toronto Arts Council;
- public art policies implemented through the Public Art Commission and the Planning and Development Department;
- the St. Lawrence Centre for the Arts;
- the Market Gallery;
- nominal lease arrangements with arts organizations in city-owned properties such as Young People's Theatre.

Of the remaining five area municipalities:

- all make arts grants, ranging from approximately \$8,000 in East York to \$206,000 in North York;
- all provide arts programming and classes through their Parks and Recreation departments;
- all have public art policies in effect, or under development;
- the City of North York owns and operates the Ford Centre for the Performing Arts;
- two have established Municipal Arts Commissions to advise Council; and
- all but York operate or make available recreational arts facilities to local groups.

Heritage

Built and natural heritage conservation activities in Metro, the GTA, and indeed across Ontario have traditionally been the mandate of area municipalities. This emphasis is explicit in the Ontario Heritage Act (1975), which charges local councils, working with their appointed Local Architectural Conservation Advisory Committees (LACAC), with identifying and regulating heritage properties. Each area municipality in Metro has a LACAC, heritage policies in their Official Plan, and a heritage program which includes operating at least one museum. This holds true for most area municipalities elsewhere in the GTA.

From a regulatory perspective, upper-tier governments like Metro and the regional municipalities of York, Durham, Peel, and Halton derive their heritage-related powers from the revised Planning Act and Comprehensive Policy Statements (1995). In exercising their responsibilities under this Act, all municipalities are to have regard for the conservation of features of significant architectural, cultural, historical, or archaeological or scientific interest. Policies and decisions regarding development and infrastructure should conserve significant cultural landscapes and built heritage resources.

Development and infrastructure may be permitted on sites containing significant archaeological resources and on sites with medium to high potential if the site is studied and the archaeological resources are removed, catalogued and analyzed prior to development or construction. Where significant archaeological resources must be preserved on site to ensure their heritage integrity, only development and infrastructure which maintain the heritage integrity of the site will be permitted. This implies that regional governments will have to develop an inventory system which includes cultural landscapes, built heritage resources, and archaeological sites.

In its Culture Plan (1994), Metro identified land use planning and corporate resources management as its two spheres of heritage-related action. The land use planning function, constrained both by legislation and by custom, entails reviewing applications affecting heritage properties in light of the Planning Act and Comprehensive Policy Statements. A broader and more positive role for Metro lies in the management of its own substantial portfolio of cultural heritage resources:

- identifying heritage resources by finding, selecting and documenting significant attributes and features;
- protecting heritage resources from destruction and loss by a variety of means;
- interpreting heritage resources by revealing and communicating their meaning and value; and
- using heritage resources in responsible ways.

With respect to documentary and artifact heritage in Metro, only Metro and the City of Toronto maintain professionally staffed public archives. North York is in the process of establishing an archives facility. Both within Metro and across the GTA, museum and archives are unevenly distributed between the two tiers of municipal government and their collection mandates are uncoordinated with respect to private sector donations. In addition, lack of a common automated system and shared authority records for archives impedes the research process.

Libraries

With the exception of services provided by the Metro Toronto Reference Library, library service is provided exclusively by all local municipalities in the Greater Toronto Area. The total amount budgeted for all public library services in Metro Toronto is \$135.0 million, of which \$121.0 million is funded through the property tax. In the other regions of the GTA, a further \$65.0 million is spent to support public libraries, of which \$56.5 million is funded by the property tax. Per capita expenditures for library services range from \$17.36 to \$56.25 across the region.

In addition, there are extensive library holdings in universities, community colleges, and schools, all of which are publicly funded and represent a major cultural asset which contributes to the development of an information economy.

The Metro Toronto Reference Library provides reference and research services to the public beyond those met by local public, school or special libraries, and supplements services to Metro's six area library systems. In addition, the Public Libraries Act designates the reference library a

“special library service board” with a requirement to provide support services across the Province, when cost effective and compatible with its own mandate.

The Metro Toronto Reference Library maintains several special collections of regional, national and international significance, such as the Bain Collection of rare Canadiana. Other provincial and regional services provided by the Metro Reference Library include Province-wide data bases and inter-library loan networks, delivery truck services, audio visual materials and purchasing, cataloguing and distributing of multi-language materials.

The Metro Reference Library differs from other libraries in the GTA in the following ways:

- Its focus and recognized strength is as an information-provider based on the in-depth expertise of its subject specialists. The library does not support recreational reading, children's and other community programs.
- It has extensive and comprehensive collections, many of which are unique (consumer health, urban studies, business) and some of which support scholarly research (history, humanities). No other public library has developed, or can afford to develop collections of this depth and scope.
- It has a varied customer base of professionals, business people, researchers, artists, performers and post-secondary students. The Library's central location in the heart of the metropolitan area, close to universities, the business and the arts communities, positions it uniquely to serve these diverse needs equitably.
- It supports Metro Toronto's multi-ethnic population through the acquisition of thousands of items in languages other than English and French every year.

Cultural Industries

The term “cultural industries” refers to those aspects of culture which lend themselves to industrial patterns of organization. The cultural industries in Metro include film and video production, book and magazine publishing, sound recording, radio and television broadcasting, architecture and design. Related to these industries is the tourism sector.

To date the area municipalities, with the exception of the City of Toronto, have not dedicated any resources to the support and encouragement of the development of the cultural industries. The City of Toronto, through its Film and Television Office, provides assistance to film and television companies. The Office provides free location permits and arranges for police assistance, municipal equipment and property. It also aggressively markets Toronto as a desirable location for film and

television production. The industry has appealed for a multi-jurisdictional service which would undertake to issue location filming permits for all municipalities within Metro Toronto. To date, no such function has been developed.

Many of the issues faced by the cultural industries fall under current regional jurisdiction. These include planning, permitting, policing and economic development.

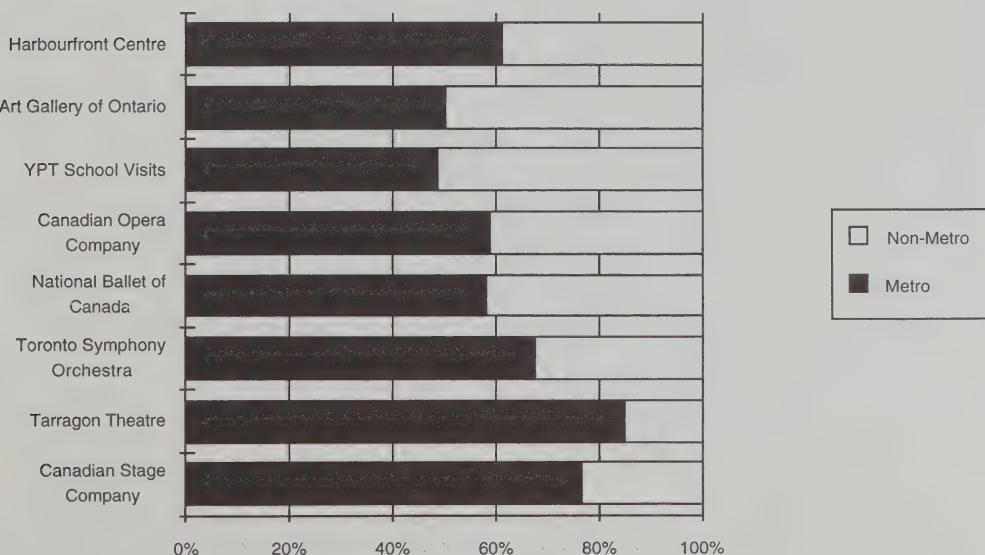
METRO'S ROLE IN CULTURAL SERVICE PROVISION

Metro's current role in cultural services in the GTA can be described as follows:

Funding of Regional Cultural Organizations Through the Cultural Grants Program

Metro's Cultural Grants program has been an effective, efficient method of redistributing funds levied from the broader region that benefits from Metro's cultural sector. While there is a large concentration of cultural services in the central area of the City of Toronto, it is clear that these activities draw upon the entire GTA for its audience and participant base. Table 1 shows the attendance patterns of the largest regional cultural organizations funded by Metro.

Table 1 - Place of Residence of Audience for Major Regional Cultural Institutions



Metro provides more than \$6.6 million in funding to regional not-for-profit corporations that present more than 8,800 publicly accessible cultural events annually. More than 7.0 million people attend these events, with a significant proportion of these attenders residing outside Metropolitan Toronto. Metro funding accounts for approximately 5 per cent of the revenues of Metro-based cultural organizations, compared with 3 per cent from local governments, 21 per cent from provincial sources, and 12 per cent from federal sources.

Operation of a regional performing arts centre

The O'Keefe Centre, presents attractions and provides a home for two regionally-significant cultural organizations (Ballet and Opera). Sixty per cent of the time at the O'Keefe Centre is allocated for use by the two principal tenants, the National Ballet of Canada and the Canadian Opera Company. The attendance patterns for these companies are listed in Table 1. Considered together with attendance patterns for O'Keefe Centre-presented events is clear that the Centre serves as a regional resource.

Provision of regional library services

It is more difficult to track the place of origin of users of Metro reference library services. However, given its special collections, the breadth of its holdings, its role in the inter-library loan network, and its designation as a provincial resource, it is clear that the Metro Reference Library serves population across Metro and the GTA.

IMPLICATIONS OF MUNICIPAL GOVERNANCE REFORM IN THE GTA

While many municipal government cultural programs and services are local in nature, it is clear that others, such as the funding of the not-for-profit cultural sector, and the operation of major cultural attractions, require some form of regional government and taxation to ensure that those who benefit from the services contribute appropriately.

Should Metro be eliminated or restructured, there would still be a need for continuing regional coordination in the following areas:

- funding ;
- regional library service; and
- records and archives function.

Furthermore, new financing arrangements and ownership, public or private, would need to be sought for facilities that include:

- the O'Keefe Centre;
- The Guild;
- Barry Zukerman Amphitheatre; and
- Exhibition Place.

Of particular concern to the cultural sector would be the elimination of the \$6.6 million that Metro contributes to the funding system. Without a mechanism to levy taxes across the larger region:

- the cultural sector would be destabilized by the loss of an important funding partner; and
- taxpayers in the City of Toronto, where much of the cultural activity is located, would bear the sole municipal cost of supporting activities which clearly benefit residents across the GTA.

CONCLUSION — THE CASE FOR REGIONAL DELIVERY OF CULTURAL SERVICES

To date, regional government in Metro Toronto has provided an efficient and effective mechanism to tax those who benefit from the concentration of cultural services and amenities at the hub of the region. As the populated area of the region has grown beyond the Metro boundaries however, the property taxpayers of Metro Toronto have borne a greater share of the municipal contribution to these services.

Local government reform must recognize the regional aspect of cultural services. If regional government is eliminated entirely, taxpayers in the City of Toronto will be required to shoulder the majority of that municipal responsibility. If some form of regional authority is introduced, then responsibility for existing regional cultural programs must be assigned to that authority.

To consumers of cultural services, political boundaries be they national, provincial/state or local are largely irrelevant. Rather, they are attracted to a destination, an event, an experience or an information resource with little regard to who built it, who maintains it and who operates it. In fact millions of visitors travel thousands of miles to enjoy what is offered within Metro and the GTA. This precludes narrowly defining the relationship of government to the consumer as shaped only by the assessment rolls of a particular jurisdiction.



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